

JPRS-CAR-93-080  
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# ***JPRS Report***

# **China**

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## U.S. Involvement in Korean Nuclear Issues Viewed

94CM0021A Beijing XIANDAI GUOJI GUANXI  
[CONTEMPORARY INTERNATIONAL RELATIONS]  
in Chinese No 47, 20 Sep 93 pp 17-19

[Article by Cheng Yujie (4453 3768 3381): "The Nuclear Issue on the Korean Peninsula"]

[Text] At the end of the eighties and at the beginning of the nineties, the overall situation on the Korean Peninsula had become one of general reconciliation, as never before experienced in that area. However, starting in October last year, the issue of nuclear inspection turned the situation on the Korean Peninsula again into one of tension, which aroused widest attention in the international community.

### I. Developments and Impediments in North-South Relations

As the international situation tended toward general relaxation, North and South Korea—in confrontation for over 40 years—also sat down to discuss the great task of national reunification, and in their joint efforts the two sides indeed achieved developments of a breakthrough character.

**The political aspect.** Since 1989, North and South Korea have at one time or the other engaged in mutual contacts and have conducted discussions and exchanges at different levels and on particular questions. Up to now, there have been altogether eight meetings at the prime minister level. In particular, since the start of 1991, relations between the two sides improved considerably. In September of that year, North Korea as well as South Korea became members of the United Nations. In December the prime ministers of the two sides signed an *Agreement on Reconciliation, Nonaggression, and Cooperation and Exchanges Between North and South Korea* and also issued a *Joint Declaration on the Denuclearization of the Korean Peninsula*. Later, in pursuance of the said agreement, five commissions were set up, with liaison offices at Panmunjom, namely for reconciliation, economic cooperation and exchanges, socio-cultural cooperation and exchanges; for military affairs; and for nuclear control.

**The economic aspect.** After their visits to North Korea, which took place at different times since 1989, top executives of South Korea's large enterprise conglomerates, such as Hyundai, Daewoo, Samsung, Kumsung, and others, have become most enthusiastic about joint ventures in North Korea. In July of 1991, 5,000 tons of South Korean rice were for the first time shipped directly to a North Korean port, signifying the start of direct trade. The scale of economic exchanges gradually increased thereafter, and by 1992, according to incomplete statistics, mutual trade had reached \$209 million, consisting of up to 261 types of goods. In the last few years, officials in charge of economic affairs of both sides have held repeated discussions on the development and utilization of the lower reaches of the Tumen river. In July 1992, North Korea's deputy prime minister in charge of economic affairs, Kim Tal-hyon, was

invited to Seoul, and when there, discussed the question of economic cooperation. This was the highest ranking North Korean Government official to visit South Korea in recent years, indicative of the new level achieved in North-South relations. From then on, there was an upsurge of a kind of "North Korea investment craze" in South Korea. Up to October 1992, North and South Korea had reached agreements on 66 joint venture projects. Kim U-jung, chairman of the board of directors of the South Korean Daewoo enterprise conglomerate, visited Pyongyang and negotiated with North Korea for the establishment of a light industry export processing zone at Nampo.

**The cultural and sports exchange aspects.** Since 1989, mutual visits of groups of artists and sports teams have taken place, and North and South Korean table tennis organizations organized a joint team to compete at the 41st World Table Tennis Championship.

However, in October 1992, just at the time when both sides were preparing to go one step further in implementing the *Agreement on Reconciliation, Nonaggression, and Cooperation and Exchanges*, it happened that the Korean side and the U.S. side at the 14th Korea-U.S. military commission meeting and the 24th annual security agreement meeting decided that no significant progress could be achieved on questions of North-South relations and especially on the question of inspection of nuclear facilities. This was cause for the suspension of the planned second stage of U.S. troop withdrawals from South Korea and for the resumption of the joint "Team Spirit" military exercises, which had once been suspended in 1992. These measures evoked a very strong reaction in North Korea. It demanded in response that the above-mentioned "decision" be rescinded, and it called a joint meeting of government, political party, and social groups who then decided that in view of the U.S. insistence on conducting the joint "Team Spirit" military exercises, all dialogue and contacts with South Korean authorities be frozen. Later, South Korea also decided to suspend all economic exchanges with North Korea. The result was that several joint committee meetings planned to start on 5 November and the ninth meeting of North and South Korean prime ministers, which was to take place in Seoul, were all cancelled, and the visit to North Korea of a South Korean vice premier was postponed indefinitely, while similarly no progress could be made on any of the 66 North-South joint venture projects. The state of relaxation that had prevailed during the last few years on the Korean Peninsula had thus hit a serious snag.

Dark clouds are again hanging over the Korean peninsula, and there are many reasons for this situation:

- 1) On the nuclear question, opinions differ between the United States and South Korea on the one side and North Korea on the other side. On the question of inspection of nuclear facilities, the South is proposing to adopt the principle of "reciprocity and equal numbers," with the possibility of "special inspections" at any time. South Korea considers this the only way to dispel the suspicion that the North is



developing nuclear weapons. The North, on the other hand, insists on the principle of a "simultaneous allaying of suspicions" on both sides—this directed against nuclear weapons being held by the United States in South Korea—and that nuclear bases must be subjected to "thorough inspections." Faced with this stalemate, the United States and South Korea decided to resume the joint "Team Spirit" military exercises and to thereby put additional pressure on North Korea.

- 2) Determination on the part of the United States to maintain its domination over Northeast Asia. During his tenure of office, Roh Tae Woo actively pursued a policy toward North Korea by which he had hoped to achieve a breakthrough in North-South relations. In fact, with efforts expended by both sides, unprecedented progress had indeed been achieved in North-South relations, but the United States, considering the situation from its own strategic viewpoint, felt anxious about too rapid a reconciliation between North and South, which would eventually force a withdrawal of U.S. military strength from the Korean peninsula and from Northeast Asia, and which, in turn, would threaten its dominating position in the said area.
- 3) Fears on the part of the United States that developments would prompt other countries to develop nuclear weapons. Preventing manufacture and possessing of nuclear weapons by the larger countries of this area is one of the objectives of U.S. global strategy. The United States believes that if it does not stop North Korea from developing nuclear weapons, it is bound to induce a chain reaction, which, in turn, would greatly change the general strategic situation in a way most unfavorable for the United States.

## II. Origin of the Nuclear Issue and North Korea-United States Talks

The nuclear issue had arisen long ago. In the winter of 1990, a U.S. intelligence agency spread the news that North Korea was developing nuclear weapons and was doing research on the subject. In November 1991, Robert Gates, director of the U.S. Central Intelligence Agency, spread the rumor that, "North Korea will have manufactured an atomic bomb within six months." When President Bush visited South Korea, early in January 1992, he declared himself in agreement with South Korea on the nuclear issue and in adopting a firm attitude against North Korea. In response, Chairman Kim Il Sung made it clear that North Korea had no intention of manufacturing nuclear weapons, and also did not even possess the capability of manufacturing nuclear weapons. In January 1992, North Korea decided to sign the International Nonproliferation Treaty [INT] and indicated that it would accept inspection by the International Atomic Energy Agency [IAEA]. From May of that year on, the IAEA conducted six separate inspections in North Korea. The inspections confirmed that North Korea's nuclear technology was still at a very low level. However, the United States continued

to suspect this conclusion, and pressured the IAEA to adopt a resolution on 25 February 1993, demanding of North Korea to declare within one month that it would accept a "special inspection" of its Yongbyon area, or otherwise be subjected to economic sanctions, or even risk military action. The United States also explicitly demanded of Japan and South Korea that they would do nothing to improve their relations with North Korea before the nuclear issue has been resolved.

In response to so forceful a pressure from the United States, the North Korean Government issued a statement on 12 March, declaring its withdrawal from the nuclear weapons nonproliferation treaty. North Korea, in view of "the continued storage of nuclear weapons in South Korea by the United States," regarded the resumption of the joint "Team Spirit" military exercises as "nuclear war exercises" directed against North Korea. North Korea also gave to understand that while the United States itself is a nuclear threat to North Korea, it is, instead, pressurizing North Korea with its groundless accusation of "developing nuclear weapons," also, furthermore, asking for a "special inspection" of a North Korean military base which has no connection whatsoever with nuclear activities. All this is "a threat against the national sovereignty and national security" of North Korea. North Korea indicated that "its policy of peaceful use of nuclear energy had remained unchanged" and that its withdrawal from the INT was merely "a measure it was compelled to take" and "a measure of self-defense."

North Korea's withdrawal from the INT was a great shock to the United States. While keeping up its pressure, the United States agreed to discuss matters with North Korea. On 11 June, both sides concluded the first round of discussions of the nuclear issue and issued a joint statement, in which they indicated consensus on three principles, namely:

- 1) The mutual guarantee not to threaten or actually use military force (including nuclear weapons) against each other, so as to safeguard peace and security on a nuclear-free Korean Peninsula (including impartial employment of measures for all-round guarantees of such); 2) mutual respect for each other's sovereignty and refraining from interfering in each other's internal political affairs; 3) supporting the peaceful reunification of the Korean peninsula.

At the same time, North Korea decided to "temporarily postpone" its withdrawal from the INT. The second round of discussion with North Korea took place from 14 - 19 July. As a result, North Korea indicated that it is preparing to use a light water cool-down reactor (difficult to use in the production of nuclear weapons) in replacement of its graphite reactor. The United States on its part stated that it would be willing to help North Korea on the fulfillment of certain preconditions, to obtain light water reactors, and to continue the discussion of relevant problems, so as to provide a foundation for the all-round improvement of relations. Progress in the North Korean-U.S. talks has been generally welcomed and favorably

commented upon by the international community, which considered them an excellent start for the resolution of the nuclear problem and of benefit for stability on the Korean peninsula and security in the Asia-Pacific region.

### III. Present Focal Points and the Future Trend

Although the tense situation due to the nuclear issue has been relaxed as a result of the two rounds of North Korean-U.S. talks, progress achieved at the talks had merely been of an initial nature. Future developments in the nuclear issue will to a large extent depend on the performance at three different talks, namely talks between North Korea and the IAEA, talks between North and South Korea, and further talks between North Korea and the United States.

North Korea has already agreed in principle to continue implementation of the nuclear safeguards provisions prescribed by the IAEA and has recently allowed an inspection team of three persons from the said agency to come to North Korea for a week, and has, furthermore, officially and in writing proposed to the said agency to resume talks on the problem of implementing the safeguards agreement with IAEA. The said agency is expected to hold a series of further talks with North Korea, because the three-man team said, they had only been permitted to maintain certain monitoring equipment and could not visit places they wanted to visit to accomplish their inspection. North Korea, on the other hand, asserted that they had allowed the inspection team to complete all work that had been necessary to ensure effective supervision, and that they had only refused the inspection team's persistent demand to undertake other steps which were not at all directly relevant to nuclear safeguards. North Korea emphasized, that they would like to discuss the "rectification of the unfair practices" of the IAEA.

North Korea has repeatedly stated the importance of a joint declaration by both, North and South Korea, on the denuclearization of the Korean peninsula, and has furthermore stated that it would like to resume the North-South dialogue. South Korea, on the other hand, has suggested resumption of meetings of the joint North Korea-South Korea committee on nuclear control to discuss the drafting of necessary rules for the mutual inspections to verify the denuclearization. South Korea also emphasized that this is an issue that must not be delayed any longer, as otherwise the "great family of nations" may take appropriate action (sanctions). North Korea maintains that both sides should appoint top-ranking leaders as special envoys to discuss the achievement of denuclearization, to relax the tense situation, to achieve national unification, and on the question of holding a summit meeting of heads of state. South Korea has consented to the dispatch of special envoys, but has emphasized that it wants first of all a further discussion of the nuclear issue.

At the conclusion of their second round of talks, North Korea and the United States agreed that they would hold another meeting two months later. However, the U.S. side declared that it would not have a third round of talks unless progress was first achieved in the talks between North Korea and the IAEA and also with South Korea. The United States emphasized that its objective is to create a nuclear-free Korean peninsula and to strengthen the global system of nonproliferation. For this purpose, the United States wants North Korea to: remain within the system of the nonproliferation treaty; arrive at an agreement with South Korea for the establishment of an effective system of mutual inspections; and to fully abide by the safeguard rules of the IAEA, which would include complying with the demands of the IAEA for the inspection of more places and for obtaining further intelligence data. The United States emphasized that unless North Korea will unequivocally fulfill its obligations under the INT and the joint denuclearization declaration, the United States will not render cooperation in North Korea's peaceful uses of nuclear energy. The United States also stated that its assurance not to use nuclear weapons does not conflict at all with its willingness to help South Korea defend itself, or with the holding of exercises of a purely defensive character. North Korea, on the other hand, is of the opinion that the whole nuclear problem is essentially due to the fact that the United States is one-sidedly discriminating against North Korea, and that as long as this root cause is not eliminated, the nuclear issue cannot be resolved. North Korea also believes that the foundation for a resolution of the nuclear issue has been created by the joint North Korea-U.S. declaration of mutual respect for each other's sovereignty and of abstaining from mutual military threats. North Korea hopes an all-round improvement of North Korea-U.S. relations will be achieved through a resolution of the nuclear issue. North Korea emphasized that it is willing to import light water reactors for nonmilitary purposes as an indication of its great desire for an ultimate resolution of the nuclear issue. If it is impossible for North Korea, for a variety of reasons, to obtain U.S. assistance in this respect, or if such assistance is delayed, and if the international community persists in its way of inspecting North Korean installations, this cannot be regarded as the right standpoint for a resolution of the issue.

The above shows that there are differences as well as affinities, and similarities as well as distances in attitudes regarding nuclear issues have come to light during the talks between the three organizations. Although the nuclear issue is bound up with North-South relations and North Korea-U.S. relations are considerably complex and present great difficulties for future talks, further positive results are quite possible if the parties concerned will base the talks on the progress already achieved, and conduct them in a concrete, flexible, and constructive manner, promoting peace and stability on the Korean peninsula.



## GENERAL

**Noted Economist Notes Current Economic Situation**

93CE0811A Beijing CAIMAO JINGJI [FINANCE AND TRADE ECONOMICS] in Chinese No 7, 11 Jul 93 pp 3-5

[Article by Yang Peixin, affiliated with the State Council Development Research Center: "It Is Necessary To Closely Watch the Macroeconomic Situation"]

**[Text] (1) The current price situation**

Propelled by Comrade Xiaoping's southern inspection remarks, by the 14th CPC Congress, and by the "two conferences," the national economy grew rapidly in the first quarter of 1993. Gross national product grew by 14.1 percent; the value of industrial output grew by 22.8 percent. Under the situation of rapid development, it is particularly necessary to closely watch the macroeconomic situation.

Presently, the momentum of price rise is strong. In March 1993 the retail price index rose by 8.5 percent over the same period last year, exceeding the originally set limit of an annual increase of 6 percent. In this respect, grain rose by 34.2 percent; fuel rose by 37 percent; construction materials rose by 21 percent (steel products rose by 100 percent; cement rose by 400 percent). In 35 large- and medium-sized cities, in March the cost of living index for the working population rose by 17 percent over the same month last year. The cost of living index for the working population has increased substantially because it also encompasses prices of services, thereby rather truthfully demonstrating the extent of decline in the purchasing power of the renminbi [RMB]. In large- and medium-sized cities, during March service prices rose by 38.8 percent over the same month last year, and cities such as Nanjing saw an increase of 70 percent. In March prices of means of production rose by 38.2 percent over the same month last year. Enterprises' costs increased by 45 billion yuan because of the increases in prices of coal, electricity, and oil. All this has determined that the retail price index will continue to rise and is unlikely to decline after April.

The domestic devaluation of the RMB has touched off its external devaluation. The swap exchange rate for the U.S. dollar rose to 8.8 yuan to 1 dollar, and fell to 8.15 yuan after China adopted measures. The Hong Kong dollar once rose to 1.1 yuan. At the Chinese-financed Pao Sheng Bank in Hong Kong, the Hong Kong dollar is exchanged publicly at the rate of 1.2-1.3 yuan to 1 Hong Kong dollar. Foreign currencies rose by approximately 40 percent over last year. In the first quarter of this year, as goods like petroleum, steel products, copper, and zinc were no longer exported, and as on the other hand several million tons of steel products and many equipments were imported, exports grew by only 7.4 percent, while imports grew by 25.4 percent. As there has emerged a foreign trade deficit, foreign currencies are on the rise.

In recent years, school fees rose (the People's University's tuition is 4,400 yuan for a self-sponsored student, and the kindergarten fee is above 200 yuan); an employee is responsible for 5-40 percent of medical expenses; retired workers (14 million) receive neither pay increases nor bonuses. The time when education and medical care were free and when housing rents were very low is already history. People are no longer saving money in order to buy big-ticket items, but in order to prepare for later years, that is, saving money in order to pay for children's education and marriage and to support themselves when old. Because of all that, the Chinese people's savings amount to as much as 30 percent of their income. But, since the beginning of this year, the bank interest rate for one-year deposits has been 7.56 percent; meanwhile, the retail price index has risen by 8.5 percent, and the cost of living index for the working population has risen by 17 percent. As a result, the savings interest rate has become a negative rate. Those who save money would make losses. In order to avoid the losses caused by the devaluation of the RMB, the abnormal stock craze has occurred. In February this year, most provinces and municipalities saw panic buying of foreign currencies, gold jewelry, household appliances, knitting wool, wool fabric, grain, salt, etc. In March, there occurred the phenomenon of panic withdrawal of savings from banks. Savings saw a net decline of 4.5 billion yuan from the previous month. Banks' cash reserve rate fell to around 1 percent, and money became tight. Banks increased circulating-fund loans by 10.2 billion yuan. In the first quarter, currency issuance amounted to 22.2 billion yuan, and 3.5 billion yuan's worth of white slips of the 30 billion yuan's worth of white slips were redeemed. Money supply increased by 46.2 percent over last year. But, enterprises are faced with a tight situation regarding funds; the interest rate for raised funds is 15-20 percent. Banks do not issue loans to enterprises, while enterprises are prohibited from raising funds from employees. As a result, enterprises are in a quandary. Fiscal revenues have increased by 7.2 percent over the same period last year, while fiscal outlays have increased by 21.6 percent. The macroeconomic situation warrants attention.

Inflation is not conducive to the "four modernizations." In Shanghai's outlying areas, prices of means of agricultural production rose by 10-15 percent in each of the last four years, while the purchase prices of grain decreased by 27 percent in three years. This year summer crops were not grown on 650,000 mu of farmland. Because of increases in prices of coal, electricity, and oil, the chemical fertilizer industry is on the verge of making losses, while those prices are expected to rise further. Inflation inevitably increases the scissors differential between prices of industrial and agricultural products, thereby having serious adverse impact on agricultural production. The price of construction-use steel has risen by 100 percent; the price of cement has risen from 200 yuan per ton to 800 yuan per ton, causing project costs to increase by 100 percent. Some projects which were originally planned to require 50 million yuan each in investment would now each need more than 100 million yuan. In

Chengdu, housing construction cost is over 4,000 yuan per square meter; people cannot afford such expensive commercial housing. As the scale of capital construction is large and as the price of construction-use steel has risen, the output of bearing steel has decreased, with the price rising to over 4,800 yuan per ton. The Shanghai Bearing Company has seen an increase of 44.55 million yuan in cost, an increase larger than the profit for last year as a whole, and is thus making large losses. In fact, this is an example of expanded reproduction harming simple reproduction, with gains being smaller than the losses. Inflation has seriously harmed the interests of peasants, employees, intellectuals, enterprises, and the state. Currency value stability is one of the conditions for having a good investment environment. Drastic changes in RMB exchange rates have created investment risks, and begun to adversely affect investment confidence. According to some comrades, inflation will not adversely affect the rapid growth of the national economy, and can be ignored. A mentality such as this that leaves things to chance has been proven wrong by the three episodes of panic buying in 1988. China has now seen another episode of panic buying; we should not again fail to sharpen our vigilance and handle the matter in a serious way. According to international practices, three consecutive months of price increase would constitute inflation. Inflation at an annual rate of 3 percent is low inflation; inflation at an annual rate of 5 percent is medium-degree inflation; inflation at an annual rate of over 10 percent is marked or serious inflation. In 1980, as inflation in the United States was over 10 percent, President Carter declared that inflation was the No. 1 enemy, declaring war on inflation. The precondition for market economy is price stability, and inflation inevitably brings about price freeze and controlled economy. West Germany succeeded in suppressing inflation in 1984, and has maintained price stability since then. This has been a precondition for the success of the social market economy.

## **(2) The macroeconomic measures that can be adopted.**

Why have we failed to stop inflation, despite the fact that we decided to enhance macroeconomic control in September last year and decided to control the two gates of credit and money this year?

This is so because we have failed to close the left gate, while closing the right gate. The left gate refers to the money and credit gate, while the right gate refers to the "price reform" gate. As pointed out by the Price Bureau, February saw a 8.7 percent price increase; in this respect, spontaneous price increase on the market caused by excessive supply of currency was responsible for an approximately 3 percent increase, and the price adjustments made by the state according to plans were responsible for a 5 percent increase. The increases in prices of services, including those relating to postal service, hotels, repairs, service, medical care, education, and housing rentals, were all in the category of planned price adjustments. Thus, the cost of living increased by 17 percent, and planned price adjustments were responsible for an approximately 14

percent increase. Most of the increases were thus in the category of increases caused by "price reform." According to some people, the increase caused by planned price reform should not be considered to be constituting inflation. In fact, under a planned economic system, whenever inflation happens, such administrative means as price control would be used to exercise strict control; and, fiscal subsidies would be given to some products. As a result, prices are distorted, and would not rise, resulting in inhibited inflation or hidden inflation. To remove price control and increase the prices of those products are to release the inflationary potential accumulated over the years. This is to pay old inflation debts. Professor Fei Ching-han, a Chinese-American scholar, once came to Beijing to argue: "When currency is under control, all prices can be decontrolled." A few years ago, we advocated "adjusting prices of steel, coal, oil, electricity, and transport all at once, and tackling prices, the financial system, and taxation at the same time." Such was also a manifestation of the idea of completing price reform in one battle. With this issue in mind, in September 1986 I specially consulted Schneider, chairman of the West German Wise Men (Experts) Committee which gave advice to the West German chancellor. According to Schneider, when introducing the new mark in 1948, West Germany kept money supply at 6 percent; at that time, only prices of industrial consumer goods were decontrolled. Food was rationed, and food prices were kept low with government subsidies. The ration system was not abolished until 1951. And, food subsidies have been retained. Food prices are currently still subsidized by the government, and also partially by the EC. Because of the shortage of supply, prices of coal, steel, oil, and electricity are not decontrolled yet. With the joint management of coal and steel businesses, prices of coal and steel were decontrolled only in 1956 when supply and demand had been balanced. Housing rent control was only removed in the 1980s when each West German household, on average, had more than one unit of housing. West Germany completely removed price control only after 30 years of operation of the social market economy, and is still providing fiscal subsidies regarding food, transport, posts and telecommunications. Japan went through a similar process. Foreign trade and foreign exchange controls lasted to the 1960s. According to some comrades, as soon as market economy is established, it is necessary to immediately rectify prices, decontrol prices, and terminate all fiscal subsidies. This is utopian market economy. In October 1986 I submitted to the State Council a report on the results of the fact-finding mission, arguing that to decontrol the steel price on 1 January 1987, increasing the price from 500 yuan per ton to 1,000 yuan per ton and allowing the price to float by 20 percent, that is, to 1,200 yuan, would damage price stability; and I suggested that the Beidaihe central work conference's decision to raise the price of steel products to 1,200 yuan in 1987 be cancelled. At that time, the State Council accepted the suggestion, thereby avoiding a man-made price fluctuation. In March 1988 I again suggested that the price reform assault should not be launched. The 1988 Beidaihe central plenary meeting decided to launch the price reform assault. The news spread nationwide. The document stipulated that



"prices of most goods be decontrolled, with prices of a few goods to be set by the state," arguing that "carrying out the reform now is better than carrying out the reform later." People thought that the move meant that "prices of most goods would rise, with prices of only a few goods to remain stable," that the RMB would devalue rapidly, and that thus "buying now would be better than buying later." All this caused the third episode of panic buying and the panic withdrawal of savings in August 1988, thereby forcing us to carry out the improvement and rectification. The 14th CPC Congress decided to make socialist market economy the reform's goal model. However, some comrades have developed some misunderstanding, believing that prices should be rectified as soon as possible, and arguing that "the price increases this year have been caused by the adoption of more price reform measures" and that "such a situation is normal when new price-forming mechanisms and regulation and control mechanisms are in the process of being established." The establishment of socialist market economy requires monetary stability and price stability, which are the preconditions for market economy. Only by eliminating the disruption caused by inflation, would it be possible to have market prices reflect supply and demand relationships correctly so that prices can guide production. In the process of changing from controlled economy into market economy, West Germany, Japan, and Taiwan all advocated "seeking development amid stability." West Germany demanded that price adjustment not exceed 3 percent in one year. The former Soviet Union and Poland disregarded the experience and lessons of East European countries, worshipped Professor Sachs of Harvard University, and implemented "shock therapy," decontrolling all prices, thereby resulting in drastic price increases, currency devaluation, the weakening of the purchasing power of people of all strata, and steep declines in production. In both world wars, the United States was far from the battlefields, and never practiced controlled economy. The American people lack the painful experience of gradually moving from controlled economy to market economy. One could talk in a casual, cheerful manner, but the people of the former Soviet Union and East Europe suffered all kinds of miseries as a result. We must be very cautious about adjusting prices of such upstream products as coal, oil, electricity, and transport, because the adjustments will inevitably affect all downstream products, including means of agricultural production, machinery and electric appliances, and consumer goods. First of all, prices of chemical fertilizers, pesticides, diesel fuel, and mechanized plowing and irrigation will be raised, resulting in increasing the scissors differential between industrial and agricultural products. This will lower the peasants' income and damage social stability. However, stability is the precondition for reform. Why should we not first reform the coal mines, by helping them reduce personnel, lower cost, and cut losses? Why should we not lower the profits of the petrochemical processing industry, while changing crude oil's listed price into a negotiated price and increasing prices, so as to prevent the price of such finished products as gasoline and diesel fuel from rising at excessively high rates. Only railway transport prices really need to be adjusted, because

the railway sector has few idle employees and is performing well in business operations. Furthermore, the railway sector must move ahead of others; otherwise, the national economy's climbing of another step will be hampered. The adjustment of prices of other products should be suspended for now. First, lower costs and reduce losses through reforms, and, then, gradually adjust the prices. Also, price adjustments must be linked to interest rates for savings. The annual increase of over 200 billion yuan in savings is the main source of China's construction funds. The Chinese people are hardworking and frugal, and would not spend all the money they have, thereby generating a savings rate of over 30 percent which is the envy of countries around the world. This is the foundation of our country and should never be damaged. The annual inflation rate, encompassing service prices and thus demonstrated by the cost of living index for the working population, must be kept below the savings interest rate; it is necessary to ensure that the real interest rate is around 3 percent (after adjusting for price index increase). Ordinary people want to save some money in order to pay for their children's education and to live happily when old, hoping that bank savings can help achieve the value preservation objective. Even when borrowing from foreigners, we would have to pay interest of over 6 percent. We should ensure that the Chinese get real interest of 3 percent. This demand is not excessive in terms of reason or fairness. During his lifetime, Comrade Zhou Enlai was the most concerned about the people's difficulties, and showed the greatest care for the ordinary people. This is the true color of a Communist. We should keep this fine tradition.

Macroeconomic regulation and control in fact has two aspects: one is to strictly control money and credit, preventing future inflation; the other is to control the size of price adjustment, that is, to control the process of price decontrol or to control the process in which the old inflation potential is released, thereby ensuring that the savings interest rate is higher than the rate of inflation. These are the two aspects of macroeconomic regulation and control. In order to curb the current inflationary momentum and to do a good job over the long run in the future, it is hereby recommended that the State Council set up a macroeconomic regulation and control task force to be headed by a vice premier, that the president of the People's Bank be the deputy head of the task force, and that the task force members include the director of the Price Bureau, the president of the Bank of China, the president of the Construction Bank, the president of the Industry and Commerce Bank, the president of the Agricultural Bank, and the minister in charge of the State Planning Commission. The task force members will discuss and coordinate the level of price adjustments, savings interest rates, lending interest rates, and the amount of increase or decrease in the exchange rates, so as to exercise comprehensive, effective macroeconomic regulation and control. But, the suppression of inflation in a fundamental way has to wait for the deepening reform, especially, the effective streamlining of party and government bodies, the elimination of fiscal deficits, and the turning of enterprises into investors so as to increase investment returns. Under



the planned economic system, returns on investment are low (returns on investment made by the Capital Steel Complex are nearly four times higher than the all people-owned enterprises nationwide). If there is to be rapid growth, self-accumulation would not be enough, and it would be necessary to issue currency and have inflation. Excessively high inflation and drastic price increases would make it impossible for socialist expanded reproduction to continue; as a result, it would become necessary to stop, carry out adjustments, and fight inflation. The 1958 Great Leap Forward and the 1987 "foreign leap forward" both failed for that reason. Only by thoroughly dismantling the planned economic mechanisms, especially the huge party and government bodies organized under those principles, would it be possible to establish a system of socialist market economy and to break the vicious cycle of "leap forward"—inflation—adjustments—"leap forward again"—inflation again—adjustments again that existed in the past, so as to ensure that the national economy can climb one step after another.

#### **'Foreign Experts' Recommend Macroeconomic Measures**

93CE0841A Beijing ZHONGGUO JINGJI TIZHI GAIGE [CHINA'S ECONOMIC STRUCTURE REFORM] in Chinese No 7, 23 Jul 93 pp 20-22, 64

[Report on statements by foreign experts at International Forum on China's Macroeconomic Management by Ye Sen (0673 2773): "Recommendations for Short- and Mid-Term Enhancement of China's Macroeconomic Regulation and Control"]

[Text] \*The participating foreign experts hold unanimously that: While China's economy is heated up, macroeconomic conditions differ from 1988, with market supplies and price marketization both much improved. As long as adequate and effective steps are taken, it will be possible to avoid an economic "hard-landing."

\*The crux of short-term countermeasures will be curbing overall demand, including raising interest rates, tightening credit, and continuing price reform, with additional mid-term reforms needed in system and related policies.

\*As China's monetary policy has always struggled along with the dual objectives of economic growth and currency stability, with the emphasis on economic growth often clashing with currency stability to cause inflation, the Central Bank should put its emphasis on currency stability.

An "International Forum on China's Macroeconomic Management," jointly sponsored by the State Commission for the Restructuring of the Economic System (CRES), the Ministry of Finance, and the World Bank, was held recently in Dalian. Vice Premier Zhu Rongji and State Councilor Li Tieying met with the Chinese and foreign experts. The participants discussed topics, such as macroeconomic management substance, macroeconomic policy methods and operations, and structural and system reforms. They also discussed China's economic situation, analyzing existing problems and recommending a series of

countermeasures. We are introducing here the views and recommendations of the foreign experts.

#### **Short-Term Problems and Countermeasures**

The participating foreign experts held unanimously that: China's reforms are succeeding, with economic system-conversion proceeding smoothly and conditions developing quite nicely. In recent years, China has steadily speeded up its pace of reform and opening, with the economy growing at a steadily faster rate, markets prospering, and the political situation being stable, which is evident to all and acknowledged throughout the world. But in order to maintain and develop this good momentum, it will be necessary to pay attention to soberly analyzing current economic conditions, and to take effective steps to solve new problems. In analyzing and evaluating China's current economic condition, the participating foreign experts held unanimously that: China's economy is overheated, the most glaring signs being that the inflation rate is rising rapidly; import demand is growing very quickly, export growth is slowing, and the gap between official and conversion-market exchange rates is widening steadily; sectors, such as power, transportation, and raw materials, are limiting further strengthening. The economic overheating is caused by too quick growth of fixed assets investment spurred by a pandering monetary policy, resulting in too much growth in overall demand. Unless the rapid growth of the money supply is effectively curbed, it will result sooner or later in further rises in final product prices. While the current macroeconomic situation is grim, it does not yet constitute a "crisis" in that, as long as adequate and effective steps are taken, it will still be possible to keep the economy from making a "hard landing." The current economic overheating differs from that of 1988, in that market supplies are much better than then, and price marketization is also much greater. So while China's economy can now rely more on indirect means, certain direct control measures remain essential.

In order to return the economy to a path of stable and sustained growth, the foreign experts recommended a series of countermeasures to deal with short-term trends.

The crux of the short-term countermeasures is to curb overall demand in the following key ways:

—Savings and loan interest rates should both be raised to the right level. Raw materials prices on commodity markets were up 40 percent by March over the same period in 1992, presaging coming retail trade inflation. Meanwhile, the retail commodity inflation rate had already reached double digits by March. Secondary-market bond yields are now up to 14-16 percent, showing that the current one-year deposit interest rate of 9 percent is inappropriate. As a market economy adjusts supply and demand through price signals, inflation sends the wrong signal to producers, causing production chaos; enabling a few speculators to profit, while most lose; and distorting normal demand, causing people often to take the value-insurance step

of panic-buying temporarily unneeded things, such as U.S. dollars, gold, and expensive durable consumer goods. This is why all developed countries place such great emphasis on controlling inflation. Raising interest rates to curb demand when the economy is overheated, is the normal method of dealing with inflation that is used by market-economy countries. In China, public financial awareness is now generally strong, meaning that the diversification of financial-asset types and too low deposit interest rates can result in phenomena, such as deposits being withdrawn from banks and invested in other domestic and foreign assets, or used to buy consumer goods. In 1988, China had a very successful experience of practicing value-insurance interest rates, which sharply increased savings, effectively curbed demand, and controlled inflation. Thus, the foreign experts recommend that we continue to raise savings and loan interest rates, as well as practicing value-insurance interest rates for fixed deposits longer than one year.

- Higher interest rates should be supplemented with a tighter monetary policy. The People's Bank of China (PBC) needs to control the basic money supply, by keeping relending authority in the head office. It should use special deposits or higher reserves to restrict the lending capability of commercial banks. It should expand and apply operating license examination, approval, and oversight procedures for nonbank financial institutions. It should enhance its supervision, to keep funds from horizontal call markets from leaking into nonbank financial institutions. Also, it must consider using more direct means to control investment, particularly that by local state units.

- We need to speed up our foreign-exchange system reform. As the gap between official and conversion exchange rates is widening daily, it is recommended that the government no longer collect foreign exchange earnings at current official exchange rates, but rather consider conducting trade at market exchange rates. We need to abandon as soon as possible our foreign-exchange-retention quota system, which will help China to quickly achieve uniform exchange rates.

China has quickly lifted the ban on capital accounts in our balance of international payments, enabling many departments and companies to set up overseas accounts, as well as recently allowing individuals to take RMB out of the country, creating a capital outflow. The foreign experts hold that our deregulation in this area has been too soon, possibly encouraging capital flight and foreign exchange hoarding, to impact immediate conditions. The regional experience of developed nations and developing countries shows that maintaining quite strict long-term control over capital accounts in one's balance of international payments is both necessary and normal.

- The experts also recommend that we should not give in to price pressure by slowing our in-process price reform as in fact, price reform, particularly energy price reform, will help to limit excessive demand.

### Mid-Term Reform Recommendations

As economic overheating shows that China has not developed well indirect economic management means and systems, we need to transcend our immediate difficulties by focusing our considerations on the necessary mid-term actions, in order to keep such difficulties from recurring every few years. Thus, we need to take two reform steps: system reforms and related policy reforms.

### System Reforms

#### A. The PBC

The PBC should become a genuine central bank. This means further separating all noncentral-bank functions from the PBC. In particular, we need to rigorously separate the profitmaking activities of stock companies and investment funds, abandoning these profitmaking activities that have originated in the PBC retention system, and turning the profits over to state revenue. We need to sharply reduce PBC functions and branch numbers, reforming the PBC branch network into a limited number of regional branches. The post-reform PBC should concentrate on performing key central bank functions: maintaining price stability and the related currency stability, and promoting a corresponding economic growth rate. The "Central Bank Law" now being drafted by the pertinent parties should include these principles.

#### B. Policy Loans

Policy loans have two uses: 1) subsidies, mostly for losing state enterprises and farm product purchasing; 2) priority investments. While the first type are budgeted, the second are a "policy-bank" service, which type of investment is financed through government-guaranteed bonds. It is recommended that we set up a policy-function bank, while having existing banks focus on commercial activities, with stronger central-bank oversight.

#### C. Assets Diversification

Many of our current macroeconomic management problems come from our banking system's focus on deposits which, for most families, are their only assets. The diversification of household assets should come through housing, pensions, and all types of securities, which will contribute to fiscal stability and help to reduce the financial management burden.

#### D. Macroeconomic Policy Formulation

We need to set up an agency directly subordinate to the State Council to draw up macroeconomic policy.

#### E. The Ownership Matter

Macroeconomic management needs a corresponding microeconomic basis, meaning reform of enterprises, mainly state-owned ones, so that they can respond more sensitively to signals sent by indirect economic policy means, such as interest rates, the key to which remains property rights (equity) clarification. Within a suitably

unified corporate framework, China's state enterprises should be incorporated, which will require the related establishment of an appropriate property-rights system.

#### **Policy Reforms**

While financial reform needs to be speeded up, the completion of this reform will take time. System reforms require corresponding policy reforms. As this matter is quite complex, it should be considered in the context of mid-term reforms.

**Monetary policy.** As China's monetary policy has always advanced with difficulty focused on dual objectives, i.e., economic growth and currency stability, with the emphasis on economic growth often clashing with currency stability to cause inflation, we should make currency stability our major objective.

**Fiscal tax policy.** There is an urgent need to give priority to fiscal tax reform, in order to give the Chinese Government a financial system through which it can use fiscal policy to exercise macroeconomic management. Such a financial system should be able to keep the ratio of revenue to GDP from decreasing steadily.

We need to expand our tax base, particularly through using land and property taxes, individual income taxes, and value-added taxes to rationalize our tax structure. Meanwhile, we need to implement "the separation of taxes from profits" as quickly as possible, with our primary enterprise-income-tax objective being to treat enterprises of all types of ownership equally. In reforming our central and local fiscal relations, as well as our fiscal package of tax separation to reduce "equally shared" taxes, it is recommended that we set up a national tax collection agency. As to the mid-term, our financial planning should be designed to give the central bank enough resources to shift payments to support development of backward regions.

**Income policy.** Our first distribution of income should be conducted through fair market competition based on the efficiency principle, with redistribution striving for further fairness through methods, such as taxes, subsidies, and insurance. In our current first distribution, injustice in fields, such as real estate, must be rectified, by a faster establishment of legal institutions and oversight mechanisms in areas, such as market order and trading rules. Income structural changes make it necessary to reinforce our individual income tax collection, with tax base minimums, including wages and as much as possible nonwage income, being set slightly higher. We need to speed up reforms in areas such as our pension system, unemployment insurance, housing reform, and health insurance. Such reforms will apply not only to state enterprises, but will be of key importance in preventing income inequality.

**On building better infrastructures.** In the long term, economic growth relies on increased production capacity, meaning investments in plant and equipment, infrastructures, manpower, and scientific research.

These last three investments are in urgent need of patience, stability, and long-range efforts. The crucial thing for China at present is not a higher savings rate, but rather how to increase investment efficiency. A key factor in China's poor investment efficiency is our weak infrastructure. Power, transportation, and communications have always been "bottlenecks" at times of high economic growth. Reinforcing our infrastructure will sharply raise the investment efficiency of industrial enterprises, the key fate of which task is the government's responsibility. Building better infrastructures will also play a role in affecting industrial distribution, by changing the imbalanced development among regions. It could be asked: If transportation and communications service facilities were fine, would investors not build textiles and shoemaking plants in Guizhou Province, where labor, land, and energy prices are all lower than in Guangzhou? Meanwhile, during economic recessions, infrastructure investment can also stimulate economic growth, to maintain full employment. Using this means in a correct and timely way can iron out economic cyclical wrinkles.

In contrast to the "four little dragons," China has the two key advantages of abundant natural resources and a huge domestic market. Our huge domestic market makes it possible for China to achieve the advantages of economy of scale, so that we are not dependent on the international market. The development experience of the U.S. economy, which is similar to China's huge economy, shows that once the economy takes off and acquires a certain momentum, it can depend on itself for sustained growth. But in order for China's huge domestic market advantage to be brought into full play, the central government will have to focus closely on the link of infrastructure development, while firmly dismantling all tangible and intangible trade barriers within China.

#### **FINANCE, BANKING**

**Article: Macrocontrol Alleviates Financial Situation**  
93CE0863B Beijing JINRONG SHIBAO in Chinese  
25 Aug 93 p 1

[Article by Jin Long (6855 5554): "Macrocontrol Shows Results, Financial Situation Tending To Ease; This Paper Authorized To Publish This Year's Financial Statistical Data Proof; Outstanding Problem Are: Too Much Cash Was Put Into the Market, With a Rapid Drop After Increase of Enterprise Deficit Increase, and Bank Credit Capital Tending To Be Tight"]

[Text] The People's Bank of China today authorized this paper to make public the following financial statistical data evidence: in the second quarter of 1993, after macrocontrol measures were implemented nationally, urban and rural household deposits ceased falling and began to rise, the increasing tendency of the currency supply came under control, and the financial situation alleviated. The outstanding problem is that too much



cash was put into circulation, the increase in enterprise deposits fell rapidly after a rise, and bank credit tended to be tight. Therefore, there should be an appropriate degree of adjustment, with attention to structural adjustment, and stabilization of the value of currency, in order to promote continued stable development of the economy.

Analysis of these second quarter financial statistical documents, reveals that the financial situation is characterized as follows:

**With too much cash put into circulation, currency in both the broad and the narrow sense has tended to be stable.**

In the second quarter, more net cash was put into circulation compared with the same period last year. Up to the end of June, there was 486.36 billion yuan in currency circulated on the market, and increase of 54.1 percent over the same period last year, and 7.9 percent more than the first quarter. This was due chiefly to a rush increase in fixed asset investment bringing on a too rapid rise in consumption and added increases in enterprises' administrative fees.

At the end of June, currency in the broad sense M2 increased by 26.5 percent, dropping 3.8 percent points from the end of March, while narrow sense currency M1 increased 34.2 percent, down 6.8 percentage points from the end of March. There was an obvious drop in the rate of increase in the currency supply after an increase, which shows that currency circulation characteristic is starting to weaken, and also forecasts that future currency enlargement tendencies will gradually ease.

**Small increases in deposits brought on a shortage of credit capital.**

Cumulative data for January to June shows that there was an increase of 175.53 billion yuan in deposits of all types in state-run banks. This was due chiefly to smaller increases during the second quarter; during that quarter deposits of all types increased 69.75 billion yuan, which was 55.68 billion yuan less than the same period last year. Compared with the first quarter, the deposit increase structure changed considerably. In the first quarter, assaulted by stock and security issues and fund raising outside of plan, deposits increased less, with the volume of urban deposits 13.53 billion yuan less than in the first quarter of last year. In the first quarter, urban deposits stopped their decline and increased by 45.76 billion yuan during that period, an increase of 7.85 billion yuan over the same period last year; however, enterprise deposits fell rapidly, increasing by only 15.41 billion yuan in the second quarter, which was 61.16 billion yuan less than the increase for the same period of last year.

In the second quarter, all types of credit in state-run banks increased 78.95 billion yuan, an increase of less than 16.98 billion yuan over the same period last year. Up to the end of June, all items of credit balance increased 17.1 percent over the same period last year, a

drop of 1.9 percent from the end of February. Credit increases slowed down relative to credit scope, with a more important reason being that the central bank strengthened control of basic currency, which limited the ability of specialized banks to expand; in addition, last year's overload operations caused the appearance in some areas of the critical situation of scale without capital.

**National reserves of foreign exchange reduced slightly.**

At the end of June, there was \$18.88 billion in foreign exchange reserves nationally, a reduction of \$930 million. The major reason for this reduction in foreign exchange reserves was vigorous consumption demands caused export increases to do down, and import increase to accelerate. In the first part of the year, based on customs statistics, total exports increased only 4.4 percent while total imports increased 23.2 percent.

Since June, the tendency of the cost of means of production to rise too rapidly has begun to slow down gradually, real estate investment has started cool down, and the foreign exchange regulatory rate had dropped after a rise. This all proves that macrocontrol measures have begun to work. When the amount of foreign exchange supply has been generally stable, interbank loans have returned, and the financial situation gradually turned for the better. We should pay special attention to a too-rapid decline in the increase of enterprise deposits, and prevent enterprises from having to bear great fluctuations due to difficulties in making payments. Financial departments must concentrate their capital to guarantee purchase requirements of key construction and agriculture products and by-products, while controlling the total amount of capital. In the course of using macrocontrol measures of all kinds, we must grasp control forcefully, so that economic operations will not produce great shocks, there will be restraint on a too rapid rise in the general price levels, and the economy will be maintained at a suitable level of increase.

### **Personal Income Regulatory Tax Collection Deemed Important**

93CE0863A Beijing ZHONGGUO SHUIWU BAO  
in Chinese 30 Aug 93 p 3

[Article by Yang Defeng (2799 1795 7685): "Conscientiously Handle Individual Income Regulatory Tax Work"]

[Text] Since reform and opening, there has been a general improvement in the living standards of both urban and rural residents, while the gap among different areas, departments, and occupations has increased. Therefore, people have had high expectations for the use of taxes to adjust excessively high personal income and ease the contradiction of unfair distribution. Recently, leading comrades of the Central Party and the State Council issued explicit instructions that there should further and better work on personal income legislation and tax collection management. In order to suit the

requirements of developing a socialist market economy, the Shanghai Tax Office has since last year put greater emphasis on the personal income regulatory tax (PRT) in order that this tax will be of greater use in regularizing excessively high income, and easing the contradiction of unfair distribution.

The Shanghai tax office collected 72.91 million yuan in personal income regulatory tax in 1992, an increase of 41.03 percent over 1991. The office's work was concerned chiefly with the following aspects of PRT collection and management.

#### **Organize PRT collectiing positively, around the income plan**

As early as January, 1992, based on the previous year's completioun of "PRT" collection, they convened a timely "PRT" collection management meeting, drew up plans for the year's "PRT" work, and set up new requirements for specialized administrators. The first quarter of each year is a peak season for "PRT" income, with a concentration of contract fulfillment, a variety of distributions and settling of accounts, and granting of annual bonuses. Therefore they required that tax departments at all levels pay special attention to collection work, seizing the opportune moment and digging broadly for tax resources, and that they should confirm investigation projects and their progress, requiring that all districts, counties, and offices have a clear understanding of the year's PRT work at the outset of the year, making a good start on the year's work.

Planning was a leading goal in accomplishing the mission. Last year, Shanghai's planned "PRT" income was 68 million yuan, significantly different from the figures measured and reported by each district, county, and office. After repeated investigation and measurement, five factors beneficial to increasing income were identified, unfavorable elements were analyzed, and specific measures were proposed, with unified thinking, for smooth implementation of the income plan.

In order to strengthen "PRT" collection management, this office made a special investigation of "PRT" throughout the city in the second quarter of 1992, with each branch office confirming its focal examination points. This investigation identified 20,823 households who had to pay 10.67 million yuan in overdue taxes.

The Shanghai Tax Office had turned their attention earlier to the above-mentioned work. In the first half of 1992, they accumulated 41.5 million yuan, an increase of 50.32 percent over the the same period the year before, making a solid foundation for accomplishment of the entire year's plan.

#### **Positively organized investigation and research, probing for broader tax resources, a reformed mission.**

In 1992, the Shanghai Tax Office organized a special topic investigation on the situation within their jurisdiction concerning excessive income from the stock

exchange, the income of scientific and technical workers, and laborers income. For example: in the investigation concerning incomes at school-operated factories and school employees' personal income, they discovered that the schools were collecting all titled service fees from students, and practicing income sharing among the school-operated factories and school employees, so that whatever profits the school-operated factories had, the school employees had too, and vice-versa. Seldom school had situation of every person should pay an over due taxes. In their investigation of tax collections on excessive stock exchange income, they found that there was a problem concerning taxes that should be collected on that income.

#### **Strengthening "PRT" collection management.**

The Shanghai Tax Office paid attention to regularizing personal income receipts: they decreed that from 1 August 1992, payments made by a work unit to persons outside of that unit fall into the category of "PRT" items and must use the "Shanghai Special Unified Receipt" rather than other receipts or be replaced with blank receipts. They studied forms of "PRT" collection: although there was a special group in each district tax branch office throughout the city, there were only a little 60 persons specially engaged in "PRT" work, while each district had 5,669 work units deputed to make collections. In order to strengthen "PRT" work, in 1992, the Shanghai Tax Office implemented trial sites for forms of collection: some branch offices established the No. 3 accounts checking office, which was involved in special investigations as well as special tax office collections; some branch offices combined collection by designated area with collectio by trades; some branch offices implemented "one household, one work unit" seperate files for the deputed work units, strengthening internal document management.

## **INDUSTRY**

#### **Analysis of Industry in 3d Quarter**

94CE0005A Beijing ZHONGGUO XINXI BAO  
in Chinese 25 Aug 93 p 1

[Article by Zhu Yi (2612 3015) and Bai Renzi (4102 0088 1311), of the Economic Forecasting Department of the National Information Center: "Trends in Industry in the Third Quarter: An Analysis"]

[Text] As the economic environment becomes more restrictive day by day, especially with a major adjustment in macro monetary policy people generally are concerned about whether or not there will be a large disturbance in China's short-term economic development. However, the results of a questionnaire survey of 5,000 industrial enterprises in 12 provinces and municipalities, on their prospects for the third quarter, shows that, unlike the rapidly-shrinking real estate industry, the contraction in investment has not yet reversed the



upward trend in production and performance at industrial enterprises in the third quarter. Overall performance of enterprises continues to improve at the same rate as in the second quarter. Production and sales look good, and the steady upward trend in production at and management of industrial enterprises in the third quarter indicates that China's economic development, supported by industrial production, will not suffer any great disturbance in the near future.

At the same time, the environment in which enterprises operate is becoming more demanding. Supplies of energy and raw materials remain tight, and prices remain high. In the third quarter, the constraints caused by the "bottleneck" in supplies of raw materials will tighten and there will be a change in the pattern of the previous several quarters, when the supply situation grew worse at a steadily accelerating rate. The rate of decline, as shown by various indexes, is generally slowing, indicating that there will be a slowdown in the rate at which shortages of energy and raw materials increase.

In contrast to the growth trend in production and sales at industrial enterprises, the economic efficiency of industrial enterprises is slipping in the third quarter. Once again, profits and taxes realized, and profits and taxes turned over to the government will fall to unfavorable levels. The rate of profits and taxes on capital, already at unfavorable levels in the second quarter, could worsen further in the third quarter, compared to the cost of goods manufactured, the speed of capital turnover, and other indexes. As production and sales continue to rise, the general decline of economic efficiency at enterprises will mainly reflect the influence of shortages of current capital, energy and raw materials.

Looking at the various factors that are affecting production in the third quarter, orders and quotas, worker motivation, equipment utilization, and capacity to produce major products all look good, indicating that the production capacity of enterprises and the effectiveness level of management will continue to improve; but orders are clearly less favorable than in the second quarter, indicating that a considerable portion of enterprises are still "underfed."

As for the various factors affecting sales, the quality and variety of goods continues to improve at the same rate as they did in the second quarter; demand for products continues to grow, but noticeably less than in the second quarter. Only 28 percent of enterprises believe that demand has continued to expand in the third quarter. Enterprise managers are still cautious about future market demand for their products. Prices are still unfavorable. The proportion of enterprises that believe prices are too low dropped from 37 percent in the second quarter to 34 percent in the third quarter. This makes it clear that while enterprise managers still feel that prices for their products are too low, pressure from enterprises for price increases noticeably diminished, in the third quarter compared to the second.

Under the influence of factors relating to supplies of energy and various raw materials supplies, which are all unfavorable, industrial enterprises will be exceptionally hard-pressed for current capital. Among enterprises, 75 percent believe that current capital is hard to get in the third quarter, while only three percent of enterprises believe that current capital is in ample supply. Industrial enterprises will face a serious shortage of current capital.

As for changes and trends in the various factors that affect current capital for enterprises in the third quarter, hoarding of capital is no longer the main factor causing the shortage. Also, as sales improve, the problem of production capital consuming too much of available funds will come under control. The basic reason why there is a serious shortage of current capital in the third quarter is that there is not enough capital to go around. This is closely related to the fact that lenders at this time do have the funds in place to make large loans of current capital to industrial enterprises.

According to the survey, the four major factors affecting production and performance at industrial enterprises in the third quarter, in order of the importance attached to them by the enterprises themselves, are: current capital, supplies of energy and raw materials, sales of products, and circumstances of production.

Looking at enterprises by their size, in large enterprises, production and performance are improving moderately in the third quarter. Production, sales, and the overall operating situation not only are all favorable but are also better than in the second quarter, and the rate of improvement will continue to accelerate. The rate of profits and taxes on capital is still unfavorable, but shows a good-sized upswing compared to the second quarter. Current capital is even harder to get, and supplies of energy and raw materials are even tighter than for medium-sized and small enterprises.

In medium-sized enterprises, there will be a noticeable decline in production and performance. They will do well in production, sales, and their overall operating situation, but much less well than in the second quarter, and also less well than other kinds of enterprises. Their rate of profits and taxes on capital will slip further, from the already unfavorable levels of the second quarter, and will be noticeably lower than for other kinds of enterprises. The unfavorable turn in supplies of current capital, energy, and raw materials will also be larger for them than for other enterprises. The shortage of current capital will be even more serious for them than for large enterprises.

Small enterprises are clearly better off than large or medium-sized enterprises. Production, sales, overall operating situation, and rate of profits and taxes on capital are all favorable, and are also basically maintaining the same rate of improvement as in the second quarter. Supplies of current capital energy and raw materials are unfavorable, but basically are not declining any faster than in the second quarter. They are clearly doing better than large or medium-sized enterprises.

As for types of ownership, in the third quarter state-owned enterprises are still doing poorly, according to the principal indexes, than collective and other types of enterprises. However, they are not doing much worse than in the second quarter and basically are maintaining the trends of the second quarter. There has been a marked rise in their sales, surpassing that of collective enterprises.

According to most of the major indexes, collective enterprises are doing poorer than in the second quarter. However, they are doing better than state-owned enterprises, by every index except product sales. The rate of profits and taxes on capital is still favorable, indicating that the economic efficiency of collective enterprises is still relatively high in the third quarter. Enterprises with other ownership systems will perform noticeably better than state-owned and collective enterprises, according to the major indexes. In particular, production and sales and the rate of profits and taxes on capital are all highly favorable, which shows why these enterprises continue to maintain a high degree of enterprise vitality.

## FOREIGN TRADE, INVESTMENT

### Applying International Unfair Competition Criteria

93CE0827A Beijing GUOJI MAOYI [INTERTRADE]  
in Chinese No 139, 15 Jul 93 pp 16-19

[Article by Zheng Chengsi (6774 2052 1835): "Opposition to Unfair Competition—International Law and Domestic Law"]

[Text] In 1992, when people in China's domestic legal field focus discussion on the distinction between "improper competition" and "unfair competition" (Footnote 1: two different ways of translating the English term, "unfair competition" in China); when units concerned with practical day-to-day work focus their attention on actions against unfair competition such as prohibiting rebates and eliminating local trade restraints; when legislative bodies and some comrades in the legal profession continue to discuss whether there is any correlation between opposition to unfair competition and the protection of intellectual property rights, two documents in the international law field that relate to (or will relate to) China confront us. One is the "U.S. Government Memorandum on Understanding the Protection of Intellectual Property Rights," Article 4 of which says that "in order to effectively prevent unfair competition in accordance with the second provision of Article 10 of the Paris Agreement on the protection of industrial property rights," the Chinese Government shall present to its legislative body a bill opposing unfair competition. The second is the GATT "intellectual property rights sub-agreement" (Denker [phonetic] text) (Footnote 2: This text was written at the end of 1991, but it was not until the end of 1992 that most people in China saw it). It is very difficult to say whether this text is an integral part of international law having binding force on China. This text has not yet taken effect. Nor

has China been "readmitted to GATT." This text uses language that is almost identical to that used in the document mentioned above in stating the principle of opposition to unfair competition of the second section of Article 10 of the Paris Agreement.

No matter whether one endorses or repudiates the foregoing two documents, the effect of the two documents on China's drafting of laws opposing unfair competition is positive. At least, they move to one side some of the pointless discussions of theoreticians, emphasizing the main point of opposition to unfair competition: the protection of intellectual property rights.

### 1. Historical and the Present Situation

The concept of "unfair competition" originated in France during the 1850's. Its legislative origin was in Article 1382 of the "Code Civil des Français" [the Code Napoléon]. This article is also the source of France's trademark law (i.e., the modern trademark registration system), as well as the source of the continental legal system's "rights infringement law." (Footnote 3: As a separate piece of legislation, the first part of the law against unfair competition is reflected in Germany's 1909 "Law Against Unfair Competition." It provides a precedent for the British and U.S. legal systems' "rights encroachment laws"). Therefore, in their origin, we can see, at least, that opposition to unfair competition and the protection of trademarks are "homologous."

Section 8 of Article 2 of first international treaty on the protection of intellectual property rights to which China was a party, the "Treaty for the Establishment of a World Intellectual Property Rights Organization," specifically provides that "protection of activities in opposition to unfair competition" is a component part of "intellectual rights protection." (Footnote 4: China became a party to the treaty in 1980). The second international treaty on the protection of intellectual property rights to which China was a party, the Paris Treaty, further defined the scope of opposition to unfair competition in the second provision of Article 10. (Footnote 5: In 1985 China became a party to the "Paris Treaty for the Protection of Industrial Property Rights.")

In addition, some international civilian organizations have also noted many times that opposition to unfair competition should be based primarily on the protection of intellectual property rights. For example, a document issued by the 1992 Tokyo conference of the "Association Internationale pour la Protection de la Propriété Industrielle" (AIPPI) said that intellectual property rights may be divided into "rights to creative achievements," and "rights to identifying marks." The former includes patents, know-how, and copyrights; the latter includes trademarks, names of businesses, and opposition to unfair competition. The marks to which the document accords protection in opposing unfair competition include, at least, insignia (including national emblems, national flags, local emblems, and the insignia of civilian groups), slogans, and the titles of books and magazines,

etc. We can readily see from this that there is a subtle and close relationship between opposition to unfair competition and trademarks and copyright protection.

Of course, some lists of unfair competition that special legislation has halted in recent years define "unfair competition" ever more broadly. They expand it to include fields that do not have the slightest relationship to intellectual property rights. In today's world, to continue to imagine that opposition to unfair competition can be limited solely to the intellectual property rights realm is really to be divorced from reality. Nevertheless, not to make the protection of intellectual property rights the key element in legislation opposing unfair competition is likewise to be divorced from reality. Hungary's relatively new legislation against unfair competition, its 1990 "Law Prohibiting Unfair Market Behavior," continues to give first place to the traditional (i.e., the Paris Treaty's) prohibition against imitating the goods of others. In the British and U.S. legal systems, such protection is regarded as coming under the protected person's "ordinary legal intellectual property rights."

At the time that the Paris Treaty was incorporated into the second section of Article 10 of the Stockholm text, the main emphasis was goods imitations and other matters pertaining to trademarks but to which trademarks do not apply. In recent years, however, the protection of commercial secrets—particularly technical secrets—has become another hot topic in opposition to unfair competition. This is yet another aspect that is not covered by patent laws in traditional intellectual property rights laws, and that is related to the protection of creative achievements. It is exactly this aspect, which was not emphasized at that time, that the two documents referred to in the beginning of this article emphasize.

It is these aspects that have not received attention in China.

The first appearance of the concept of "opposition to unfair competition" in post liberation laws and regulations in China was in Article 4 of the 1985 "Interim Regulations on the Control of Advertising." (Footnote 6: This regulation was made a formal regulation in 1987, but Article 4 still reiterates: no use of advertising for unfair competition). Articles 4, 5, and 7 (particularly Article 4) of the subsequent "Civil Code General Regulations" expressed the principle of opposition to unfair competition (but no concept of opposition to unfair competition appeared). In 1990, a ruling by the Linyi Intermediate People's Court in Shandong Province and the Shandong Provincial High Court, which was made in accordance with the foregoing provision of the "Civil Code General Regulations" in a case involving the imitation of alcoholic beverages produced by others, protected the intellectual property rights of the litigant. In May 1991, the Haidian District People's Court in Beijing dealt with the "Windlass, Woman, Well" magnetic recording tape rights infringement case in accordance with the same principle. This latter case was mistakenly regarded by many people both in China and

abroad as "the first copyright dispute case since the inauguration of China's copyright law." Actually, China's copyright law, which had been inaugurated at that time, had not yet gone into effect. Had any illegal imitations been discovered, according to applicable administrative regulations at that time, they might even have been regarded as "legal." However, opposition to unfair competition effectively protected the intellectual property rights of the litigants. For a long time after the ruling in this case, some people in China and abroad who still did not understand the true situation in China asserted that China's "people's courts had never halted unfair competition by applying the principles of the 'Civil Code General Regulations.'" (Footnote 7: See ZHISHI CHANQUAN [INTELLECTUAL PROPERTY RIGHTS], 1992, Issue 4).

Additionally, during the mid and late 1980's, local regulations opposing unfair competition appeared in Wuhan, Jiangxi, and Shanghai.

## 2. Behavior Constituting "Unfair Competition"

In its large, comprehensive document titled, "Protection Against Unfair Competition," which was drafted in February 1993, the World Intellectual Property Rights Organization divides unfair competition into two categories. One is actions covered in the Paris Treaty (which makes up the smallest part of the document), and the other is actions not covered in the Paris Treaty (which makes up the largest part of the document). The actions include the following:

1. blurring the sources of commodities or services: (Footnote 8: The term "source" as used here does not mean place of origin, but rather the production firm)
2. deception through exaggeration or other means, thereby confusing people about the goods or services provided;
3. denigrating competitors;
4. violating commercial secrets;
5. unfair use of consumer-acknowledged achievements of others;
6. making comparisons in advertisements;
7. award sales and similar behavior;

In the GATT sub-agreement on intellectual property rights, at least the following are listed in addition:

8. abuse of the exclusive right to use intellectual property rights.

Theoretical units and practical units engaged in day-to-day work in China list at least the following in addition: (Footnote 9: See ZHONGGUO FAXUE [CHINESE JURISPRUDENCE], all issues for 1990 and 1991, and all Chinese drafts of laws against unfair competition prior to May 1993).



9. dumping;
10. rebates and such forms of "bribery sales promotions";
11. forced buying and selling, monopolizing markets, or the use of other coercive methods in doing business;
12. collusion in making bids and other such illegal methods of coordination;
13. Profiteering, and hoarding for speculation purposes;
14. local restraint of trade and local protectionism;
15. all forms of monopoly that inhibit competition;
16. other dishonest behavior that hurts the interests of business people and consumers.

The first six of the seven actions that the world intellectual property rights organization lists are directly or indirectly concerned with the protection of intellectual property rights, or are themselves protections of intellectual property rights. "Award sales" do not constitute unfair competition in a substantial number of countries, or it is not generally termed unfair competition.

The eighth action that GATT lists is directly and mostly against the abuse of exclusive rights to technical achievements such as patents and know-how. It applies to the "restrictive trade clause" in international technology transfer agreements (e.g., the nine contract clauses that China's "Technology Import Agreement Control Regulations" forbid. It is also directly concerned with intellectual property rights; however, the point of departure is limitation of these exclusive rights. When a "mandatory licensing" system is included in a nation's patent laws (or even in its technology contract laws), if other regulations contain provisions prohibiting the use of restrictive trade clauses, this problem is no longer covered by that country's laws opposing unfair competition.

All of the numerous unfair competition actions that China lists in view of the situation in the country are, or should be, covered by other laws. For example, if rebates constitute bribery, they should be covered by provisions of the criminal code regarding the offering or acceptance of bribes. (Footnote 10: Article 185 of the current criminal code is far from sufficient. Revisions should be made that meet the needs of a market economy). Whether profiteering and hoarding for speculative purposes is in violation of the law, or under what circumstances it is a violation of the law, is still under discussion. Whatever the case, however, listing it as "unfair competition" seems inappropriate. Forced buying and selling and the monopolization of markets can be handled by using the prohibitions in already existing regulations. Moreover, to term such behavior simply as "unfair competition" is to minimize it somewhat. "Dumping" is not a problem in China where prices are still relatively low. Should it truly become a problem in the future, it certainly will not be halted by reliance on unfair competition laws but rather by extremely specific special "anti-dumping laws such as the

United States, Japan, and West Europe use to punish it." Collusion in bidding is truly a matter within the jurisdiction of opposition to unfair competition in some countries. In China's special circumstances, however, it is simply one form of unhealthy tendency like using contacts to get favored treatment, gaining entry through the back door, or bribery, and it may also not be the most flagrant such tendency. If it is included, ensuing problems that may arise will be how to oppose unfair competition in setting up projects for financial assistance from various funds, in enterprise reform, state agency reform, and somewhat more finely in the assessment of credentials for a position, the setting up of courses of study, and the examination and approval of agencies and projects. These matters must be controlled in the same way as local restraint of trade and other forms of local protectionism, but they positively are not matters that can be controlled by "laws opposing unfair competition." Opposition to unfair competition is bound to have a bearing on the protection of consumers' rights and interests just as the protection of the exclusive right to a trademark is bound to have a bearing on protection of consumers' rights and interests. Just as the trademark law does not make protection of consumers' rights and interests its main emphasis, neither can a law opposing unfair competition take this as its main emphasis. Therefore (at least in China), there is a separate "consumers' rights protection law." Monopoly is truly a form of unfair competition, but it has complex origins. Some state-sponsored "monopolies" (such as the monopoly on the sale of tobacco) may be necessary, and some individual or legal entity monopolies (such as patents) happen to be an integral part of traditional intellectual property rights. Therefore, to make "monopolies" a matter within the purview of laws against unfair competition requires simultaneous designation of "monopoly exceptions" (i.e., legal monopolies that do not constitute unfair competition). After following a tortuous road for the past several years, Poland has come to the conclusion that two different laws must be drawn up: one against monopolies and the other against unfair competition. They may not be combined. In the United States, which was the earliest to legislate against monopolies, the anti-monopoly laws and the laws against unfair competition are basically in two different realms. They overlap only in specific laws and regulations. U.S. anti-monopoly laws are made up of the "Sherman Anti-Trust Act," the "Clayton Anti-Trust Act," and the "Federal Trade Commission Act." The federal laws against unfair competition are comprised of the "Lanham Act" (separate chapters and sections), the "Uniform Fraudulent Conveyance Act," the "Uniform Commercial Secrets Act," the "Uniform Consumers Purchasing Activity Act" (this three part law has the character of an exemplary law), and the "Federal Trade Commission Act."

### 3. Analysis of China's Legislative Choices

The foregoing discussion shows that of the existing international treaties to which China is a participant or signatory, all that have a bearing on unfair competition are within the intellectual property rights protection

framework. We can also see that some unfair competition receives no attention even though it runs contrary to unfair competition laws, while other laws are heeded (possibly more effectively). If laws opposing unfair competition go unheeded, there are no other laws to heed. Some people liken the three main laws regarding traditional intellectual property rights (patent laws, trademark laws, and copyrights) to three icebergs floating on the sea, and they liken laws opposing unfair competition to the water below that is carrying these three icebergs. Truly, patent laws that pay no heed to commercial secrets, trademark laws that pay no heed to the faking of goods, and copyright laws that pay no heed to the use of identical book and magazine titles create chaos. If no heed is paid as well to laws opposing unfair competition, the injured parties will have no recourse. Use of the copyright law to rule that the names of books and magazines, or the titles of other copyrighted works also enjoy a copyright is ridiculous. For example, the English translation of the title, "Xiewang" [Yearning] is *Great Expectations*. This is identical with the English title of the modern film based on Dickens' novel and known in Chinese as "Guxing Xuelei" [Lone Star Blood and Tears], but there can be no confusion of the two. However, in 1989, some people abroad used the name RENMIN RIBAO (OVERSEAS EDITION) to publish a Chinese language newspaper. Obviously, this can create confusion for readers; thus, it can be halted in accordance with local laws against unfair competition. In Shanghai, "Ami" brand milk powder, which bears the likeness of a tiger cub, is very popular. Should another firm use the characters for "tiger cub" as a trademark (even without using either the likeness of a tiger cub or the characters for "Ami," that would clearly be a failure to heed the trademark law. The result would also be to confuse consumers about the manufacturer of the product. Thus, this use should also be halted in accordance with the law against unfair competition. Otherwise, the "Ami" milk powder firm's intellectual property rights will not be genuinely protected.

After several revisions during the drafting of China's law against unfair competition, attention was directed toward linking it to the treaties to which China is a party and a signatory, excising most of the section opposing monopoly and highlighting the protection of intellectual property rights. Therefore, the drafting of this law was basically successful. Whether some components might be added and others removed is a matter that can continue to be studied and discussed, and it is also a matter that is inescapable when the first text of a new law comes out. However, this is a technical matter.

The law against unfair competition is surely very different from existing traditional intellectual property rights laws (patent laws, trademark laws, and copyright laws). However, the differences are not what other's imagine. This is because the law against unfair competition has not bestowed a positive right on parties concerned. It is not the kind of law whereby "only when the rights and interests of the parties concerned are infringed

by unfair competition may suit be filed calling for a halt." Actually, traditional intellectual property rights are all of this kind. Take copyrights, for example. Only when the rights and interests of the copyrighter are infringed by actions in violation of the copyright law can the copyrighter show his own status as a holder of rights in the process of filing suit to bring about a halt. It is for this reason that British and American legal system legal dictionaries term copyrights "quasi-jus ad rem." The difference between them also does not lie in greater administrative interference against unfair competition. Actually, administrative interference is somewhat less in copyright protection. This point differs from opposition to unfair competition and patent and trademark protection. Copyrights do not stem from administrative approval. This point differs from patent rights and trademark rights, but is close to know-how protection and protection against imitation of other than trademarks. To look for a difference between the law against unfair competition and traditional intellectual property rights laws in this regard will be fruitless.

The main difference between protection against unfair competition and traditional property rights protection lies in the following: The rights of persons having the right to call for a halt to unfair competition are less well defined than patent rights, trademark rights, and copyrights. In traditional intellectual property, the patent holder's patent application defines the limit of what is patentable. Anyone entering this limit creates and infringement of the patent right. The specialness (i.e., the "exclusiveness") of this right is most well defined. In affirming a rights infringement, the trademark law applies the fuzzy standard of "similar to or close to," thereby exhibiting a certain degree of imprecision. Copyright laws are even more imprecise because they rise spontaneously according to law. However, in the final analysis, copyright laws provide clear provisions for all moral and economic rights, and rights limitations, thereby remedying their imprecision to a certain extent. However, laws against unfair competition have yet to develop the completeness of copyright laws. Their imprecision is very rarely compensated. This causes substantial difficulties for administrative and judicial organs in enforcing the law, and it also occasions substantial difficulties for legitimate competitors in the maintenance of their own rights. Second, traditional intellectual property rights vary from region to region. Moreover, the owners of know-how or some other commercial secrets who have the right to prohibit unfair competition rely on keeping secret the real special rights they enjoy. Usually they are not subject to regional limitations. Furthermore, maintenance of intellectual property rights against unfair competition is not limited by "time." Patents protect for 20 years, and copyrights protect for 50 years or longer. Protection of commercial secrets may last for only a short period of time (if the secret leaks out), or it may last forever (if the secret is kept forever). In general, there is no "protection period" for against imitation. Patents, trademarks, and copyrights are all "open." They are linked to various kinds of



overt information. Patents and are linked to published invention manuals. Trademarks are an open indicator of goods and sources of services. The target of copyright protection is the form of expression of all kinds of information. Except for published works, everything is open, and the only way to infringe an unpublished work is to publish it without permission; thus, the object requiring protection at the time is already overt. Of course, in countries (such as the UK) that do not include "publication rights" in their copyright laws, the only protection against publication by others that unpublished works obtain is through the commercial secrets laws (which are an integral part of laws against unfair competition). Most of what the laws against unfair competition protect is not overt, and to a very large extent, unlike patents, trademarks, and copyrights, even what is overt is not related to overt information about movie stars. Examples include "unfair use of achievements that consumers know to be those of others." This includes some "achievements" that are only sensed, but cannot be seen or felt. The special "functions" of certain firms' products are in this category. In 1986 when an American court held that the software of one company was identical in function to the software of another company (as had already been recognized by consumers), and that it constituted an infringement of copyright, the court made its judgment on the basis of people's "impression" of the two. In my book "Legal Protection of Computer Software and Data," which was published the following year, I noted that such judgments about identical function based on feeling, and goir on to declare a rights infringement is a matter that should properly be covered by unfair competition law (and not by the copyright law).

Finally, this "even greater imprecision" of the law against unfair competition also reflects the hollowness of the "conclusions" in the earlier mentioned comprehensive document titled, "Protection Against Unfair Competition" (drafted in February 1993 by the World Intellectual Property Rights Organization).

Since no conclusion has been reached in the unfair competition field by other countries that have many years experience in legislation and international protection, China, which is just getting started on domestic law, cannot be expected to be unassailable. We can only require that revisions of these draft laws are moving in the right direction and becoming better and better, and require that they do not conflict with the international treaties to which China is a party or a signatory. This has been done. This shows mostly that although these laws in China have not limited unfair competition to the protection of intellectual property rights, they have treated such protection as a key point (or nucleus).

## LABOR

### Child Labor Causes, Prevention Measures

94CE0010.1 Beijing GONGREN RIBAO in Chinese  
27 Aug 93 p 3

[Article by Guo Xiang (6753 5046): "The Prevention of Child Labor Requires Comprehensive Management"]

[Text] In recent years, it has gradually been discovered that quite a few entities, especially urban and rural collective enterprises, private enterprises and individual entrepreneurs, have ignored state laws and policies to hire without authorization youths and children under age 16 to work as laborers, sales workers, or apprentices. The number of child workers at certain village and township enterprises has reached as high as 20 percent. Repeated injunctions by relevant state agencies and local governments have failed to deter this activity. The emergence and spread of this illegal practice have severely damaged the physical and mental health of youths and children and has caused large numbers of elementary and middle school students to drop out of school. This not only interferes with the implementation of the "Compulsory Education Law," but by continuing to spread, will create serious social consequences.

Prevention of child labor in China has been unsuccessful because the use of child labor is not simply the result of policy errors but a social and historical phenomenon with many causes. First, the temptation of income. The establishment of a socialist market economy has weakened the product economy concept of fairness. The shift in value concepts on the part of urban residents and the increased desire for money have provided an economic environment for the use of child labor. The implementation of the output-related system of contracted responsibility in rural areas has driven large amounts of excess labor into the cities and broken down the divisions of the traditional "dual economy." The intense contrast between the high incomes of workers who have entered the city and the low incomes of those who have remained in the countryside has stimulated the desire of the peasants for cash income. In addition, factors such as relatively low living standards in the countryside, problems with inadequate food and shelter, and the continuing high cost of weddings all contribute to the high incidence of child labor. Urban and rural collective enterprises, private enterprises, and individual entrepreneurs in search of greater profits appreciate the lower cost and easier management of child labor and are willing to risk breaking the law to hire child workers.

Second, the backwardness of the educational system has contributed to the large-scale incidence of child labor. 1) China's low economic standards and limited higher education capacity as well as the contrast between the high cost of attending university and the wages to be expected from a post-graduation work assignment have caused some middle school students to prefer to enter the economy rather than attend university. 2) The incompleteness and inappropriateness of the employment training system have weakened its attraction. Inadequate compulsory measures have allowed some youths to bypass participating in training in favor of entering the economy. 3) The distribution of elementary and middle schools in some areas is not equitable. With many elementary schools and few middle schools, many students complete elementary school but are unable to attend middle school and therefore enter the economy.

4) In impoverished rural areas, compulsory education has been difficult to implement. Families cannot handle the burden, and many children cannot attend school. Unreasonable, excessive charges also exacerbate this vicious cycle. In addition, some parents and children see education as useless and the practice of abandoning school in favor of earning money is a factor for the continuing existence of a rural child labor market.

Third, inadequate enforcement of the laws. 1) The lack of clarity and specificity as well as the light sanctions in the laws and regulations embolden employers and providers of child labor. 2) The ineffectiveness of enforcement agencies, the weak awareness of enforcement and the existence of corruption prevent the law from projecting an appropriate degree of threat.

Fourth, the reform of the labor system has destroyed the old system of utilizing labor, and the new system of utilizing labor is not yet straightened out. Corruption in the supervision of recruiting and hiring workers has allowed village and township enterprises, private enterprises and individual entrepreneurs to hire large numbers of child workers. The inadequacy of the oversight structure cannot ensure effective oversight.

The use of child labor not only harms the mental and physical health of non-adults and is detrimental to the future of the nation and the people but also directly threatens the security of employees' work rights and the labor system of the country. This must be resolutely prevented. This phenomenon, however, has become a major social problem and relying solely on the efforts of one or a few agencies will not achieve a satisfactory result. We must bring to bear the force of the entire society, and through the joint efforts of all concerned parties in concerted cooperation, adopt effective measures to carry out a comprehensive approach to controlling this problem.

First, a prerequisite condition for the fundamental prevention of the use of child labor is the vigorous development of the economy to raise the material living standards of urban and rural people. Prosperous lifestyles will diminish the economic motivation for child workers. The government must drop the old passive method of simply assigning employment based on population pressures in favor of adopting proactive policy measures to fully develop labor resources, expand employment, and achieve equitable employment assignment of workers. Village and township enterprises and side industries must be fully developed to increase the capacity of the land, so that most of the labor in rural areas can be utilized on the spot, according to the principle of "leaving the soil but not leaving home." Where conditions are mature, appropriate mobility of urban and rural labor should be allowed, eliminating blind areas in rural labor mobility. This approach will effectively control the emergence of the use of child labor. Second, strengthen the complete implementation of the "Compulsory Education Law" and improve the system for preemployment training. The leaders of all

relevant organizations must amply emphasize the training and education of labor reserves and adopt appropriate measures to ensure the complete enforcement of the "Compulsory Education Law" in rural areas. We must increase educational publicity efforts aimed at parents of youths and children. Parents who force children under 16 to work as laborers, sales workers, or apprentices should be subjected to criticism and counseling and ordered to correct their error. Those who refuse to do so or who merely feign compliance must be strictly punished according to the "Regulation On the Prohibition Against the Use of Child Labor." For youths under 16 who cannot attend school there should be organized arrangements for preemployment training.

Third, strengthen legal enforcement. 1) Increase citizens' awareness of the law and let all recognize that hiring child workers is a serious infraction and will be punished by law. 2) Strict enforcement. All levels of government must strengthen supervision of recruitment and hiring and ensure that those who ignore the laws and decrees and hire child workers not only must immediately send the child workers home but also are given administrative sanctions or fines based on the severity of the case. Those who cause injury or death or cause serious damage to the nation through the hiring of child workers should be even more severely penalized. They must not be tolerated. 3) Vest labor supervision agencies with the authority to supervise labor recruitment, allowing them the authority to penalize units or individuals who illegally hire child workers, and through increased oversight of the labor market, eradicate the sources of child labor.

Fourth, perfect the reform of the labor system, raise the management standards of labor agencies, and conscientiously bring to play the functions of the relevant agencies. Industry and commerce and urban construction authorities as well as other administrative agencies must increase their supervision and oversight of child labor and thus thoroughly eradicate the use of child labor.

## POPULATION

### Article Notes New Achievements in Eliminating Illiteracy

94CE00401 Beijing ZHONGGUO JIAOYU BAO  
in Chinese 8 Sep 93 p1

[Article by Jiang Yandong (1203 6056 2639): "New Achievements in Nationwide Efforts To Eliminate Illiteracy"]

[Excerpt] At a press conference held recently by the State Education Commission, this reporter learned of new achievements during the past year in the elimination of illiteracy. In 15 provinces alone (including directly administered municipalities and autonomous regions), 3.87 million people became literate. Jilin Province and 400 counties in other areas have reached a high standard of 95 percent literacy among young and middle-aged

people. It is estimated that the number of people nationwide who will overcome illiteracy this year will reach over 5 million. According to a briefing by authorities of the Adult Education Department of the State Education Commission, anti-illiteracy work has received the attention of all levels of government this year. All provinces, municipalities, and autonomous regions have enhanced leadership in anti-illiteracy work. In Gansu, Xinjiang, and Qinghai, all levels of government and education departments have signed agreements on the responsibility for eliminating illiteracy. After this year's elections, the provinces of Anhui and Shandong invested a great deal of effort in fighting illiteracy. Jiangsu Province even included eliminating illiteracy in the 26 concrete tasks to be performed for the people by the provincial government and party committee during this year and budgeted one million yuan in funds earmarked for anti-illiteracy work.

All areas have also improved the supervision of anti-illiteracy work, to bring developed areas and areas with many illiterates under control and expand anti-illiteracy work to the village level. Shandong, Anhui, Jiangsu, Henan, and Sichuan, five large provinces with over 10 million illiterates in each, have completed a plan to quicken the pace of anti-illiteracy work. Fujian province has resolutely expanded eight efforts—organizing leadership, using publicity to mobilize the masses, plan tasking, "dual line" responsibility [of both local government administration and education agencies], local regulations developed by the people, inspecting and encouraging, creating files and records, and assessing before accepting—down to the village level, so that the 97 percent of the province's administrative villages which have anti-illiteracy responsibilities have launched anti-illiteracy efforts. Currently, 5,522 villages in the province have achieved a literacy rate of 95 percent.

In order to improve the quality and increase the speed of anti-illiteracy work, all areas have promoted the reform of anti-illiteracy pedagogical materials and methods. Zhejiang and Jiangsu provinces have expanded the "An Zijie's Modern One Thousand Words" anti-illiteracy pilot project, with comparatively good results. Hubei Province has implemented the "Zhang Hualai 400 Words Phonetic Word Recognition Anti-Illiteracy Experiment." The Gansu Provincial Education Commission has filmed 20 audio-visual educational pieces on anti-illiteracy and post literacy education, as their undertaking in an UNESCO sponsored experimental anti-illiteracy education project, which is making significant explorations of word recognition methods in eliminating illiteracy. [passage omitted]

#### **Inner Mongolia Eliminating Illiteracy**

94CE00401 Beijing ZHONGGUO JIAOYU BAO  
in Chinese 6 Sep 93 p1

[Article: "Inner Mongolia Makes Marked Progress in Combatting Illiteracy"]

[Excerpt] The Inner Mongolia Autonomous Region, where illiteracy previously was as high as 90 percent, has achieved outstanding results in anti-illiteracy work, due to an early start, large investment, and the use of advantageous measures in anti-illiteracy work. Currently 1.5 million people in the region have overcome illiteracy and the literacy rate among young and middle-aged people is over 94 percent. The overall illiteracy rate among the entire population has fallen to 15.39 percent. The literacy rate compares to average or slightly above average rates for the whole nation.

Minorities account for one-fifth of Inner Mongolia's 21.4 million people. Their scattered population and inconvenient transportation exacerbate the difficulty of anti-illiteracy work. Inner Mongolia has adopted the approach "the dumb horse flies first" [help the disadvantaged first]. Under conditions of economic hardship, the regional government, all levels of local government, and the masses have reduced their expenses and lived frugally in order to invest a relatively greater amount in anti-illiteracy work. The Inner Mongolia Treasury department has resolutely budgeted 2 million yuan each year in special funds for anti-illiteracy and has stipulated in writing that each level of government must dedicate at least 1.5 percent of general education funds for anti-illiteracy. The funds expended on anti-illiteracy by all levels of government during the period over the last more than ten years total 100 million yuan. Residents of every village have also voluntarily donated funds to support the anti-illiteracy effort and actively guarantee the smooth advancement of anti-illiteracy work. Now the province has established 1,191 Cultural and Technical Schools for peasants and herdsmen at the village (sumu) level and 7,083 cultural and technical schools for peasants and herdsmen at the hamlet (gacha) level, thus achieving 100 percent coverage in anti-illiteracy educational activity. In order to improve anti-illiteracy efforts, the Inner Mongolia Autonomous Region has established a special organization within its Department of Education dedicated to anti-illiteracy and has established anti-illiteracy education offices at the meng (city) level and anti-illiteracy education sections at the qi [district] and county levels. All levels of government, from the top to the bottom, include organizations dedicated to supporting the needs of anti-illiteracy work. The Autonomous Region government has also stipulated that each village (sumu) and hamlet (gacha) provide at least one specialist so that every village and hamlet has someone to take control of anti-illiteracy. Currently, at the village (sumu) level the region has 3,000 anti-illiteracy specialist cadres and 1,300 teachers who are also employed as anti-illiteracy specialists. The entire region has not only popularized elementary compulsory education and blocked the emergence of new illiterates, but has also edited and printed nearly 300,000 pieces of anti-illiteracy educational materials and reading materials in Mongolian, in response to the cultural needs of minority peoples. [passage omitted]



## AGRICULTURE

### Guangxi Oil Crop Area, Output

94CE0085F Chongqing XIN AN JINGJI RIBAO  
in Chinese 15 Oct 93 p 1

[Summary] This year the oil crop area in Guangxi exceeded 3.3 million mu, and gross output was 323,300 tons, an increase of 29,300 tons over 1992. The oil crop high-yield demonstration area exceeded 250,000 mu, and average per mu yield exceeded 150 kilograms, an increase of 35 kilograms over the normal oil crop area.

### Sichuan 1994 Cotton Area

94CE0085G Chengdu SICHUAN JINGJI RIBAO  
in Chinese 21 Oct 93 p 1

[Summary] In 1994 the planned cotton area in Sichuan Province is 2.2 million mu, and the planned contract order is 2.2 million dan.

### Accession to GATT 'Barrier' to Agricultural Market

93CE08741 Beijing GUOJI MAOYI WENTI  
[INTERNATIONAL TRADE JOURNAL] in Chinese  
No 127, 30 Jul 93 pp 42-44

[Article by Zhang Guilin (1728 2710 2651): "Impact of GATT Entry on Domestic Agricultural Market"]

[Text] The agricultural market in China is a fledgling and fragile market newly emerged from the framework of a planned economy. Chinese peasants have yet to learn the rules of the international market, even the domestic market. This constitutes a real barrier to the drive to promote agricultural development in a market economy. Negotiations are currently under way to resume China's status as a signatory to General Agreement on Tariffs and Trade [GATT]. Accession to GATT will have an enormous impact on China's agricultural market, but even as it puts enormous pressure on it, a development which may even prove painful, it will give us a good opportunity to create a highly efficient, orderly, and modern agricultural market.

#### 1. Current Major Weaknesses of China's Agricultural Market

- A) A system of self-contained local closed markets. For years there had existed in China a whole bunch of regional agricultural markets defined by the boundaries of administrative divisions that were honeycomb-like and isolated from one another. Not only were they closed markets, protected by all kinds of highly local rules and regulations, but, even more important, they were based on the deep-rooted principle of agricultural production: small but all-inclusive. In China, agricultural production was fundamentally in a state of natural specialization whose goal was regional self-sufficiency. Little consideration was given to the development of specialized production guided

by the principle of comparative advantage. As far as the circulation of agricultural products between regional markets is concerned, therefore, two things are lacking: external operating conditions and an internal drive for exchange.

- B) The market still in its infancy. By and large China's agricultural market remains a market in its infancy. The bulk of the trading of agricultural products occurs on the urban and rural fairs or takes the form of procurement by the state-run commercial sector. In 1990, there were 59,473 rural markets across the nation and 13,106 urban agricultural markets. In all trading on these markets amounted to 216.82 billion yuan, 28.3 percent of the gross value of agricultural output for that year. An overwhelming majority of the transactions were spot transactions of a retail nature. In contrast, the wholesale market, futures trading, futures market, commodity exchange, commodity auction center, and other manifestations of the mature market are still in an experimental stage.
  - C) A massive production potential has combined with a narrow consumption market to depress farm prices. China has a vast potential for agricultural production, as verified by the rapid increase in the supply of agricultural products since reform went under way. Yet this enormous potential has to live with a highly circumscribed market. As a consumer of agricultural products, the Chinese peasant displays a high degree of self-sufficiency. He typically grows his own grains, vegetables, even tobacco, raises his own pigs and chickens, and brews his own spirits. The volume of agricultural trade that takes place among peasant households is very small. The consumption market for agricultural products exists mainly in the cities. Yet just one quarter of China's population lives in the cities, which means that the ratio between agricultural producers and consumers is 3:1. Between them, the huge supply capacity and the small consumption market have long depressed farm prices. Under the planned economy, the underpricing of farm products was mandatory. Today, when the prices of all agricultural products have largely been deregulated, those prices still cannot go up. In fact there is frequently an over-supply of some agricultural products. The underlying reason is that when it comes to farm produce, the consumption market is far too small relative to China's huge production capacity.
- #### 2. Benefits of Accession to GATT for China's Agricultural Market
- A) It would help increase agricultural exports, thus creating an outlet for the nation's enormous farm production capacity. Agricultural trade is a major part of the Uruguay round of negotiations, now in progress under the auspices of GATT. The main objective is to reduce tariff and nontariff barriers,

trim farm subsidies, and promote international trade. Chinese agricultural production is essentially a natural process. It causes little pollution and the prices are low, which means that Chinese agricultural products are fairly competitive on the international market. Agricultural products have consistently occupied a prime spot in the nation's foreign trade. In 1990, China exported \$21.95 billion worth of farm products and processed agricultural goods, 42.4 percent of the nation's total exports. After China resumes its membership in GATT, Chinese exports will be subject to reduced tariffs or enter a foreign nation tariff-free. Nontariff barriers will also be dismantled. In addition, Chinese agriculture will be given the necessary assistance in accordance with the preferential provisions for developing nations under GATT. This will certainly help China open up the international market for its own agricultural goods and change the excessively low comparative advantage for Chinese agricultural production, thereby tapping agricultural production potential and achieving full employment for Chinese peasants.

B) It will help create a unified, open, and nation-wide agricultural market. Under GATT, member nations are required to establish a national unified market, at the same time making it more open. They are also required to dismantle assorted barriers to the inter-regional circulation of agricultural products. This will prompt us to fully eradicate the market blockades between the various regions and unplug the channels of agricultural products circulation.

C) It will help China perfect and modernize its system of agricultural markets.

International agricultural trade essentially involves staple and primary products. Wholesale markets, futures markets, and commodity exchanges feature prominently among the methods of trade of staple and primary products. In contrast, agricultural trade in China is dominated by the country fair and procurement, a situation that is out of step with the world market. To meet the requirements of the international market, a family of modern markets consisting of the spot market, wholesale market, futures market, and related financial market, technology market, labor market, and land market must quickly materialize in China.

D) It will help China develop regional division of labor and specialization in agricultural production in accordance with the principle of comparative advantage and lay the foundation for a modernized mass market. Implicit in the formation of a unified national market is an end to self-sufficiency in production and sales of agricultural products and the freedom of every region to develop the products that yield the most benefits for itself in accordance with the principle of

comparative advantage, while purchasing on the market those products where it is at a disadvantage. This will help bring about regional specialization and division of labor in agricultural production and maximize comparative advantage.

### 3. Resumption of China's Status as a Member of GATT Will Put Pressure On Its Agricultural Market

A) It will shake up China's agricultural market in the short run. Still in its infancy, China's agricultural market and its immature mode of operations fall far short of the requirements of the world market. When the door to China is thrown open, the world market system and the domestic market system are bound to clash with each other, with the latter being the more vulnerable. China's system of agricultural markets must go through a radical reorganization and overhaul in order to accommodate to the international agricultural market. No doubt this will be a traumatic development for the domestic agricultural market. Only when the reorganization process is complete will the market then gradually regain stability.

B) It will deal a heavy blow to a good number of agricultural markets. Even as we take advantage of tariff cuts and the elimination of nontariff barriers to increase our farm exports, we must allow the entry into China of the farm goods of other nations on similar terms. At present some Chinese agricultural products enjoy a formidable price advantage and other advantages on the world market, but there are also many Chinese farm goods which find themselves at a disadvantage in terms of quality, variety, design, transformation conditions, or production costs. This is something that cannot be ignored. Not only will it be hard for the latter products to secure a foothold on the world market, but they will come under pressure even on the domestic market.

C) Trading costs may go up. In China, the agricultural market system is less than perfect. Its components as well as the sectors that serve the market, including storage, transportation, finance, and insurance must be reorganized and streamlined out in accordance with the requirements of the world market. For a short time after China rejoins GATT, the costs of trading may well go up, and the trading environment will be tough because of China's unfamiliarity with the rules of the world market and lack of coordination between the various components of the domestic market.

D) It may complicate market management and regulation and control. Traditionally the management, regulation, and control of the agricultural market in China has been dominated by the government. On the other hand, GATT seeks to avoid government interference in the market and requires the use of economic levers to keep the



market operating normally. To have the state manage the agricultural market on a macroeconomic level while satisfying these conditions, China must further reform the management system of its agricultural market.

- E) The principal market players are too weak. This situation must come to an end. The principal market players refer to producers, consumers, and merchants acting as intermediaries. In China's agricultural market, characterized by the village fair and procurement, the principal market players are over-fragmented structurally. Most producers and consumers are individual peasant households or consumer households. The state-run commercial sector is about to undergo a transition from the old to the new order. Outside the state-run commercial sector, a new stratum of middlemen-merchants has yet to materialize. When the principal market players are scattered and disorganized, they cannot live up to the requirements of the international agricultural market. The establishment of a group of effective and powerful market players, however, is an arduous and long-term task.
4. Looking Ahead: Laying the Groundwork for a Smooth Transition
- A) Reform the agricultural products circulation system at home. Overhaul the procurement methods in the state-run commercial sector so that over time it becomes a middleman-merchant whose operations do not smack of government interference. Nurture agricultural products supply groups akin to community peasants associations and a stratum of middlemen-merchants and bring them to the conference table where wholesale trading and futures trading take place.
- B) Nurture a group of experts trained in the theory and practice of market issues. To acquaint ourselves with and adapt to the rules of the world market, we must waste no time in training our group of experts on market issues. Select the right

people nationwide and put them through specialized market training to develop an army of experts in domestic and international trade. At the same time, make a success of the related colleges and universities as well as adult education and turn out domestic and international market specialists.

- C) Adjust the market structure diligently. Even as we continue to strengthen the rural fair and urban agricultural market, which occupy a crucial spot in the market system in China, we must accelerate the experiments in the more advanced forms of the market—wholesale market, futures market, commodity exchange, and related land market, financial market, technology market, and labor market, and popularize the experience. Do a good job planning, evaluating, and developing these markets so that over time they will dovetail with the world market.
- D) Establish in the course of time an agricultural products reserve system with a considerable regulatory and control capability.

To cushion the blow that the domestic and international markets will deal to the suppliers and consumers of agricultural products and protect the producers' enthusiasm and social stability, China should allocate a substantial sum of money to accelerate the creation of an agricultural products reserve system. At present the bulk of agricultural reserves are held by peasant households. This practice works well under country fair trade and the agricultural trade market system, but it fails to meet the requirements of international trade. International trade demands a modern reserve system to keep the market operating steadily.

- E) Perfect the market service system. Adjust the banking system, tax system, industrial and commercial management system, and other service systems in accordance with the requirements of aligning our market with the world market. That way China's agricultural products market will operate in accordance with the rules of the world market and pave the way for the smooth integration of China's agricultural market with the world market.

### Shandong Propaganda Officials on Publications Work

94CM0023A Jinan DAZHONG JIBAO in Chinese  
9 Sep 93 p 2

[By own correspondent: "Digest of Speeches at the Provincial Working Conference on Newspapers and Periodicals—Effective Publication and Distribution of Newspapers and Periodicals, Strengthening Leadership, Emphasizing the Focal Points"]

[Text] The following is a digest of some of the speeches given by heads of propaganda departments of municipal and prefectural party committees at the provincial working conference on the publication and distribution of newspapers and periodicals, most recently held at Jinan.

#### Strengthening Leadership, Establishing Normal Publication Order

Wang Haiting [3769 3189 0080] (deputy head, propaganda department, Weifang City Party Committee): The *Report on Rectifying Publication Order for Newspapers and Periodicals*, approved and circulated by the general office of the provincial party committee and the general office of the provincial government, is a very timely and very important document. It is very significant as guide in our efforts to improve our performance in the area of newspaper and periodicals publishing, and significant for our efforts to restore good order in publishing, as it is also of a strong goal-oriented character and lends itself well to actual implementation. Restoring good order in publishing and lightening the burden on the peasants does not at all mean that we may now give no further attention to the publication of party newspapers and party periodicals. Just on the contrary, implementing the purpose of the said document means that great efforts in restoring good order in publishing and in strengthening leadership be accompanied by efforts toward a more effective job in publishing party newspapers and party periodicals.

Hu Guilian [5170 2710 5571] (deputy head of the propaganda department and concurrently chairman of the Literary Federation, Rizhao City Party Committee): Implementing the spirit of the *Report* requires of us that we nurture four kinds of consciousness:

**Rectification consciousness.** In our efforts to cope with the chaotic situation in the area of newspaper and periodical publishing, our motivation must be to rectify things and reform, and that we must do so with firm determination.

**Quality consciousness.** As we emphasize quality in material products, we must give even more attention to the high grade and high quality of intellectual products. We must present the broad masses of our readers with excellent products, and must not allow our newspapers and periodicals to be invaded and eroded by such

phenomena as plagiarism, duplications, flattery, vulgarity, and other uncouth or even loathsome phenomena.

**Service consciousness.** We must firmly establish a sense of responsibility to the masses. Subscriptions must not be conducted by fixed apportioning, and when running a newspaper, we must constantly think of the masses. Distribution must be unimpeded and punctual, and the effectiveness of newspapers must be fully brought into play.

**Consciousness of being a party newspaper.** Party newspapers and party periodicals occupy a special position among newspapers and periodicals. We must do a good job of publishing party newspapers and party periodicals, giving due consideration not only to the needs of the socialist market economy, but also to the principle of party spirit.

Zhao Quanjiang [6392 3123 3068] (deputy head, propaganda department, Dezhou Prefectural Party Committee): It is very timely and very necessary to bring up at the present time the question of restoring order in the area of newspaper and periodical publishing. The "order" in this area has indeed reached a point where rectification has become unavoidable. Especially the newspapers and periodicals issued by some trades or systems are engaging in things that they should not be engaged in. This has not only a serious detrimental effect on the publication of party newspapers and party periodicals, but actually also adds to the burden of the peasants. To achieve an effective restoration of good order in publishing and ensure publication of party newspapers and party periodicals, I suggest that the province issue operationally effective and detailed rules and regulations, which define clearly which types of business newspapers and periodicals must not attack the party newspapers and party periodicals through their systems or through the adoption of other impermissible methods, while all offenders of such rules shall be prosecuted. Moreover, the province should be strict when examining and approving the publication of new newspapers or periodicals and should as far as possible keep the opening for such new entries rather tight.

#### Emphasizing the Focal Points, Firmly and Effectively Take in Hand Publication of Party Newspapers and Party Periodicals

Zhao Enfa [6392 1869 3127] (deputy chief, propaganda department, Zaozhuang City Party Committee): Party newspapers and party periodicals are the official organs of the party committees. Their purpose is to propagate the political line and the general and specific policies of the party and to guide work in this area. They are an important tool for the exchange of information on the state of affairs, and are also links and bridges in relations to the masses. The issue and propagation of party newspapers and periodicals has therefore all along been an important component of the work performed by the propaganda departments of party committees at all

levels and of the postal agencies. Under the present conditions of the great battle of newspapers and periodicals, and under the chaotic conditions existing in the area of distribution channels, it is essential that conspicuous attention be given to the issue of party newspapers and periodicals, and this is also an absolutely correct and needful affair. We are determined to give new impetus this year to the publication and distribution of party newspapers and periodicals.

Yan Fengming [7027 7685 7686] (deputy chief, propaganda department, Linyi Prefectural Party Committee): Party newspapers enjoy a very high prestige among the people, and no other newspaper or periodical can function in their stead in guiding public opinion. We must stress the need to effectively carry out two things: One is, to act in the spirit of the relevant documents by giving conspicuous attention to the focal points and do a good job of issuing and distributing party newspapers, such as the DAZHONG RIBAO. The other thing is to cooperate with other relevant departments in earnestly and firmly taking in hand the restoration of good order in newspaper and periodical publishing. We must not allow various newspapers and periodicals to camouflage themselves as "party newspaper" and thus "hitch a ride," and we must not allow it that administrative measures are used to get subscriptions by means of apportioning, but must rather give the lower levels certain fixed norms to be followed in soliciting subscriptions.

Li Guangzeng [2621 1639 1973] (deputy head, propaganda department, Jining City Party Committee): An earnest effort must presently be made to resolve the following issues:

- 1) To resolve the chaotic situation in the area of newspaper and periodical publishing, we must take truly effective and hard-nosed action, and must also adopt measures that are appropriate.
- 2) We must adopt necessary measures to ensure attention to the focal points, must do a good job of soliciting subscriptions and of distributing party newspapers and periodicals.
- 3) Soliciting subscriptions and distributing party newspapers and periodicals is an important matter; it must be made a matter of common awareness throughout the entire society, and it is here that a "total warfare" must be waged to the successful end.

Wang Xirong [3769 1585 2837] (deputy head, propaganda department, Taian City Party Committee): To effectively accomplish the task of soliciting subscriptions to party newspapers and periodicals and of distributing them, we must, first of all, raise the awareness of their importance, and must not regard the soliciting of subscriptions as a matter of apportioning. Second, all party and government agencies in the cities, counties, and prefectures and the grassroots party organizations of every rank, in units of the commercial and industrial enterprises must ensure that a certain number of party

newspapers are being subscribed, so as to have party newspapers better fulfill their "mouthpiece" function.

#### **Doing the Right Thing and Being Confident in This Knowledge—Do a Good Job of Propagandizing and Coordinating**

Han Tingmu [7281 1694 2606] (deputy head, propaganda department, Laiwu City Party Committee): Effectively publishing party newspapers and periodicals, promoting reform and opening up to the outside world, serving economic construction, these are all unshirkable obligations and responsibilities for us who work in party affairs and propagandize ideology. It is for us, therefore, to take the publication of party newspapers and periodical firmly in hand, doing the right thing and being confident in this knowledge. "Doing the right thing" mainly refers to effectively propagandizing, doing a good job of arousing interest, having everybody consciously wanting to subscribe. "Confident in this knowledge" means mainly to undertake feasible measures, having the services from various quarters keep abreast with circumstances, facilitate everyone's subscription, keeping quantity and quality on a scientific level, avoiding duplications and waste, and truly bringing the functions of party newspapers and periodicals fully into play.

Guo Zhenqing [6753 2182 0615] (deputy head in charge of general affairs, propaganda department, Jinan City Party Committee): In the last few years, some irregularities have occurred in newspaper and periodicals publishing. Some employed the method of high sales commissions, some adopted the method of high bonuses, some even disregarded the needs or ability of the subscribers and used the powers of office to enforce a system of apportioning. Our investigations have shown that the unhealthy practices in newspaper and periodicals publishing involved many lines of trade and many sectors, but the resentment of the general public was not to any large extent directed against the publication of party newspapers and party periodicals. Problems had mostly arisen with some small newspapers or publications of low quality, and it is precisely this type of newspapers that disturbs the normal conduct of newspaper or periodical publishing, and which, in turn, exerts an adverse effect on subscriptions to party newspapers and party periodicals. This situation demands of us of the propaganda departments that we strengthen macro-guidance of newspaper and periodical publishing. According to the state of economic development and the social demand and overall benefits in the district concerned, we must always do a good organizational and coordinating job, must eliminate disturbing elements, and on the premise of giving particular attention to the publication of party newspapers and party periodicals, we must do a good job throughout the entire area of newspaper and periodicals publishing.

Wang Shuzhen [3769 3219 6297] (deputy head, propaganda department, Liucheng Prefectural Party Committee): For the effective publication of party newspapers and party periodicals, the propaganda departments bear



unshirkable responsibility. Especially in the case of the RENMIN JIBAO, DAZHONG RIBAO, JINGJI RIBAO, the QIUSHI magazine, and ZHIBU SHENG-HUO, the soliciting of subscriptions must certainly be handled more effectively. At the same time, we are hoping to improve the publication of party newspapers and periodicals. Especially since we are in the midst of the great undertaking of building a socialist market economy, we must not only effectively propagandize the general and specific policies of the party, but must also effectively propagandize various things of a technological nature, to enable the masses to obtain, through the reading of newspapers and periodicals, various kinds of information. This is indeed the way to have people wanting to read and liking to read.

Yu Yaozhong [0060 5069 1813] (deputy head, propaganda department, Binzhou Prefectural Party Committee): Binzhou Prefecture, in the north of Shandong, is a less developed region. It has in some past years done comparatively well in the publishing of newspapers and periodicals, but as things have developed, publishing activity last year was not at all satisfactory, and it has fallen behind, compared with previous years, in the number of subscribers, particularly of the DAZHONG RIBAO. We are determined to conscientiously review past experiences and lessons, work out measures, clearly define tasks and demands, and to do all we can to achieve a higher and better performance in the issue and distribution of newspapers and periodicals, especially also of the DAZHONG RIBAO in 1994.

**Taiwan Journal on PLA Interest in CIS Weapons**

93CM0453A Taipei CHUNG-KUO TAI-LOU  
[MAINLAND CHINA MONTHLY] in Chinese  
No 311, 1 Jul 93 pp 70-72

[Article by Yueh Yang (1471 7122): "Chinese Communists Expand Forces, Vie To Buy Former Soviet Union Advanced Strategic Weapons"]

[Text] The Chinese Communists are interested in the most advanced strategic weapons with which the former USSR armed forces were heavily armed. Even if they are unable to buy actual prototypes of these weapons, they would like to find ways to obtain secret information about their research and development technology and manufacturing techniques. With the break-up of the Soviet armed forces in the wake of the dissolution of the USSR, working in coordination with military intelligence units such as the Second Department of the General Staff, Chinese Communist military research units are taking advantage of the turmoil to benefit themselves.

**Chinese Communist Navy, Army, and Air Force Pay Attention**

For the past year the Chinese Communist armed forces have been buying batches of Su-27 and MiG-31 fighters, and they have been discussing the purchase of aircraft carriers from Russia and the Ukraine. What is not known abroad is that ever since 1992, the Chinese Communists have purchased or have discussed the purchase from Russia and other republics of the most advanced T-80 tanks, and Tu-95 (Bear) strategic bombers capable of carrying a number of air-launched cruise missiles. They even hope to be able to obtain R & D technology for long-range land based missiles capable of carrying 10 nuclear warheads, portable nuclear land mines, and submarine missiles.

Not only are the Chinese Communist air force and navy paying attention to the former Soviet forces' advanced equipment, but the army and the Second Artillery Corps (i.e., the missile corps) are also unwilling to be left behind. The Chinese Communist armed forces are planning ways to negotiate the purchase of the former Soviet armed forces' most advanced anti-tank weapons and various types of land-based missiles. Even if they are unable to buy them, they hope to be able to obtain through irregular channels the blueprints and advanced technology for their manufacture.

**"Foreign Military Equipment Validation Center"**

According to information obtained from a reliable, high-level source in the Chinese Communist armed forces, not long after the dissolution of the former Soviet Union the Chinese Communist's General Staff Department and the Chinese Military Science Association took the lead in gathering together the General Staff Logistics Department; the Special Forces; the National Defense Science, Technology, and Industry Commission's Carrier Rocket

Technology Research Academy; the Navy Logistics Department; air units; the Navy Equipment Validation Center; the Air Force Foreign Military Technology Research Office; and the first and second research institutes of the Second Artillery to organize at once a special validation mechanism, the "Foreign Military Equipment Validation Center." This center is responsible for studying the feasibility of purchasing all kinds of advanced weapons from the former Soviet armed forces, and the recruitment of former Soviet armed forces national defense experts to serve in mainland China.

At the end of 1991, the first analytical report of the Chinese Communist "Foreign Military Equipment Validation Center" appeared.

With regard to conventional weapons, the report said that prior to dissolution, the former Soviet army had 61,500 tanks. Statistics show that the number of tanks in the former Soviet armed forces was greater than the total number of tanks in all the countries of the world put together.

Even today, the tank and anti-tank weapon R & D technology of not only the Chinese Communists but of several military powers including the United States lags behind that of the former Soviet armed forces. Virtually every army in the world regards the Soviet army's tanks as an extraordinarily important object for research and secrets breaking.

Today, every one of the former Soviet army's most advanced T-80 tanks is equipped with 111 counteraction armored plates that can stand up to ordinary anti-tank weapons in battle and also withstand neutron shells.

The former Soviet armed forces were also not only equipped with the world's most advanced anti-tank missile, but also with nuclear land mines of incomparable power. Not long after these weapons were successfully researched and issued to the armed forces, the Chinese Communist Armored Forces Academy and the research institutes concerned began to discuss the possibility of manufacturing copies, but it was found that such a high level of design or manufacturing technology could not be attained in a short time. Therefore, the Chinese Communists urgently want to obtain prototypes of these weapons from the USSR.

**Chinese Communists Urgently Need Heavy Strategic Bombers**

Experts versed in the ins and outs of Communist China's national defense industries know that although the Chinese Communists have progressed more in recent years than formerly in "self-reliant" research on aviation weapons, even today Communist China's aircraft manufacturing plants remain unable to manufacture large civilian passenger planes and huge cargo planes. Thus, their R & D on military aircraft naturally cannot satisfy

long range heavy bomber requirements. However, the former Soviet armed forces were equipped with the world's highest tonnage transport plane, the "An-1124," which can carry 150 tons. In addition, the former Soviet armed forces had an entire division equipped with Tu-95 (Bear) long range heavy bombers. These aircraft can sling several air-launched cruise missiles, each of which weighs more than a ton. They have a range of more than 6,000 kilometers. Were the Chinese Communist Air Force to be equipped with these bombers, their range would permit them to fly from mainland coastal areas to any islets in the South China Sea, to say nothing of being able to fly from coastal Fujian Province to the Taiwan hinterland and back.

In recent years the Chinese Communists have energetically developed their navy and air force in a so-called "quality building of the armed forces." To a very large extent, this effort is focused on the internationally disputed South China Sea, and on threatening Taiwan's security. However, the greatest naval threat to the South China Sea and Taiwan are aircraft carriers, and the air force needs long-range strategic bombers. Therefore, before the dissolution of the USSR, the Chinese Communists sought to negotiate with the Gorbachev government to obtain R & D technology for large transport aircraft and heavy strategic bombers, but it encountered polite refusals from the USSR.

#### Secret Deal With the Ukraine

Following the dissolution of the USSR, Russia and the Ukraine soon wished they could trade their big guns for butter with the nations of the world, so Communist China's armed forces naturally began to pay attention to the strategic weapons of the former Soviet armed forces. However, since Russia and the other former Soviet republics had given overt guarantees to the United States and other Western nations that their weapons sales to the Chinese Communists were only defensive in character, things such as the Soviet Su-27 and the MiG-31, which are tactical aircraft, could be openly sold to Communist China. However, negotiations on the buying and selling of weapons such as strategic bombers had to be conducted in extreme secrecy.

Following dissolution of the USSR, after a period of hiatus in the union republics, even though the Commonwealth of Independent States advocated maintenance of a "unified military force," the 106 bomber division—the former Soviet armed forces' sole long-distance bomber division—stationed more than 80 kilometers south of Kiev in the Ukraine, swore allegiance to the Ukraine along with several hundred thousand officers and men of three military regions in the Ukraine. After receipt of this information, the Chinese Communists immediately tasked the team that was discussing the purchase of an aircraft carrier from the Ukraine with proposing the purchase of a Tu-95 (Bear) bomber prototype or to purchase its design and manufacturing technology.

Since the Ukraine was being pressed by Western nations about the sale of weapons, and since it was loathe to abandon morality for the sake of profit, China's intention to buy strategic bombers remains at the talk stage.

#### Chinese Communists Yearn for Strategic Carrier Weapons

The world's most advanced strategic weapons carrier technology, which the former Soviet armed forces possessed, is also one of the main objects of Chinese Communist yearning. An example is the former Soviet armed forces' SS-18 ballistic missile, which can carry 10 nuclear warheads at the same time. Not only can it reach any target on earth, but no similar weapon that the United States has at the present time can match its equivalent TNT explosive power. A secret 1991 Chinese military research report admitted that given the current level of research and development, were China to rely entirely on its own strength to research and develop an SS-18 ballistic missile, more than a decade would be needed to complete it.

Of course, the Chinese Communists understand extremely clearly that even if the economy of Russia, the Ukraine, and other post-dissolution union republics becomes 10 times worse than it is today, they will not trade SS-18 ballistic missiles for butter. Nevertheless, the Chinese Communists believe that this chaotic period of Soviet military dismemberment offers the best opportunity to benefit themselves.

#### General Staff "Second Department" Unscrupulous

Intelligence that the Chinese Communists obtained long ago shows that the strategic weapons of the former Soviet armed forces are held by the strategic rocket army, the strategic bomber division, and the navy nuclear submarine corps, and that these units were formerly located only in Russia, the Ukraine, Belarus, and Kazakhstan. Thus, beginning in 1992, Communist China's intelligence units acted quickly to study the possibility of obtaining manufacturing technology for the former Soviet armed forces' strategic carrier weapons.

One bureau of the "Second Department" of the General Staff, which is the department responsible for the collection of military intelligence, was set up to tackle the former Soviet armed forces. Formerly, this bureau's main duty was to spy on the Soviet armed forces, particularly to obtain military defense information about the former Soviet armed forces along the Sino-Soviet border. Now, however, its main task is the collection of scientific and technical military intelligence, particularly intelligence on the strategic weapons of the former Soviet armed forces.

The "Second Department" of the Chinese Communist general staff has screened the information it holds on national defense science and technology in the Soviet armed forces for information about Soviet military personnel connected with strategic carrier weapons. It has identified a number of demoralized people that it hopes



will be unable to withstand the lure of money, sex, or other means and will defect. The so-called "military attaches" that the "Second Department" of the General Staff assigns to all embassies and consulates in Russia are carrying out these defection tasks today.

The results of this action plan of the "Second Department" of the Chinese Communist General Staff are not yet known to the outside world, but information that this correspondent has obtained states that personnel assigned by the "Second Department" of the General Staff have at least obtained several Soviet made nuclear

land mine prototypes through illicit channels in a certain country of Eastern Europe. These have been smuggled out and have reached the China mainland. In addition is the former Soviet armed forces national defense science and technology that has entered the China mainland through various channels, and the scientific and technical data that some people have sold to the Chinese Communists. Whether these data that the Chinese Communists now possess will be of decisive assistance in the rapid development of strategic carrier weapons must await an analytical report from the Chinese Communist national defense science and technology authorities.

## CENTRAL-SOUTH REGION

### Hunan Regulations on Preserving Public Security

93CM0507A Changsha HUNAN RIBAO in Chinese  
18 Sep 93 p 7

[Regulations for "Comprehensive Public Security in Hunan Province" adopted by the Fourth Session of the Eighth Hunan Provincial People's Congress Standing Committee on 6 September 1993]

[Text] **Article 1.** These regulations are formulated in accordance with the NPC Standing Committee's "Resolution on Strengthening Comprehensive Public Security" and the relevant legal provisions in close connection with the actual situation in the province in order to maintain public order, ensure the development of the open and reform program and promote economic construction.

**Article 2.** All government departments, groups, enterprises, and institutions within the administrative region of our province must comply with these regulations.

**Article 3.** The fundamental task for improving comprehensive public security is to mobilize and organize all the forces in society; adopt political, legal, administrative, economic, cultural, educational and other means to prevent illegal and criminal activities; punish offenders; and ensure social stability.

**Article 4.** To improve comprehensive public security, we must persistently follow the principle of paying attention to both cracking down on and preventing crimes, of controlling crimes within one's own jurisdiction, of holding whomever in charge responsible and of combining special assignments with the mass line.

**Article 5.** People's governments at various levels should strengthen their leadership in improving comprehensive public security, list such work as an important project in promoting national economic and social development, and use available manpower and material and financial resources to safeguard and support such projects.

**Article 6.** The Committee to Improve Comprehensive Public Security at and above the county level and the village, and town and neighborhood leading groups to improve comprehensive public security are aimed at organizing, guiding and coordinating with each other in carrying out the work of improving the social order in one's own area. Their main responsibilities are as follows:

- 1) Popularizing and implementing laws, regulations and policies in improving comprehensive public order;
- 2) Implementing and executing resolutions adopted by the people's government at the same level and the committee to improve comprehensive public security at the higher level, and making arrangements to oversee such implementation and execution in close connection with the situation in public order in one's own area;

- 3) Studying major problems on the work of improving comprehensive public security and making proposals on how to solve them;

- 4) Summing up and propagating the experience in improving comprehensive public order, and decide on projects for commendation or criticism in carrying out such work in one's own area;

- 5) Making recommendations to the people's government or the department in charge of such work for commendation or punishment;

- 6) Handling other matters in this connection in one's own area.

**Article 7.** In doing the work of improving public security, the government departments, groups, enterprises and institutions have the following tasks:

- 1) Carrying out the work of propaganda and education on the legal system;

- 2) Setting up and improving the public security responsibility system in one's own unit, implementing measures for the prevention and control of crimes, and insuring internal security;

- 3) Coordinating with other relevant departments to investigate illegal and criminal activities related to one's own unit;

- 4) Mediating civil disputes within one's own unit or related to one's own unit; and

- 5) Handling other matters concerning the improvement of comprehensive public order.

The principal responsible persons of various units should be held responsible for the work of improving comprehensive public security in one's own unit.

**Article 8.** The tasks of a villagers' committee and a neighborhood committee for improving comprehensive public security are as follows:

- 1) Giving publicity to laws and regulations in this regard, educating people against fire, robbery, sabotage and security hazards, and helping villagers and residents increase their awareness in observing discipline and abiding by the law and raise their abilities for self-defense and self-government.

- 2) Implementing measures adopted by the basic-level people's government to improve comprehensive public security.

- 3) Organizing and controlling mass organizations for self-defense and self-government with members of groups for maintaining public order as the backbone element of such organizations to do a good job in maintaining social order in their respective districts.

4) Timely mediating in civil disputes, preventing the intensifying of contradictions, and eliminating hidden troubles, to maintain public security.

5) Helping and educating those villagers and residents who commit minor offenses.

**Article 9.** People's courts and procuratorates and the various public security, security and judicial and administrative departments should strictly perform their duties; strike at various illegal and criminal activities according to the law; severely punish those criminals who have seriously jeopardized public security; and play a main role in improving comprehensive public security.

People's courts and procuratorates and the public security, security and judicial and administrative departments should rigorously implement their internal administrative system; be strict with the police; strengthen education and control over law enforcement personnel; and help them improve themselves.

**Article 10.** After administering or suspending sentencing of, or the exclusive deprivation of political rights of prisoners, and the parole of those undergoing reform through labor, the people's courts must make timely notification to the public security department in the locality where these persons have their residence registration, to ensure supervision.

Reform through labor departments should strictly implement the system of screening and approving applications for freedom from custody for medical treatment. In dealing with those who remain out of custody for medical treatment, they must make timely notification to the public security authorities in the locality where these persons have their residence registration, to ensure supervision. They should promptly take them back into custody after the medical treatment is completed.

The public security authorities should strengthen their investigation of, supervision and control over those who have been administered or suspended sentencing or exclusively sentenced to deprivation of political rights and those who are released on parole, or remain out of custody for medical treatment. Village committees and neighborhood committees and relevant units must render related assistance.

**Article 11.** Reform-through-labor and rehabilitation-through-labor departments must strictly implement the discipline system; improve their work of transforming offenders; strengthen their work in educating, saving and remolding criminals and those who are undergoing reform through labor; and create conditions to help those who are released from prisons or rehabilitation to look for jobs or further their studies; and prevent them from violating laws or committing crimes again.

**Article 12.** Labor departments and the relevant authorities must make proper arrangements to help those who are released from prisons upon the completion of one's term or from rehabilitation, to settle down by providing them with

job opportunities and organizing them to work for a living or go back to their original units. Under no circumstances should they discriminate against these persons.

**Article 13.** Public security departments should strengthen their supervision and inspection work over guns, ammunition, controlled sharp objects, combustible and explosive materials or deadly poisonous and other dangerous goods. The production, storage, transportation and use of such dangerous goods must be placed under strict control.

Those who illegally manufacture, sell or buy, carry or store guns and ammunition and controlled sharp objects must be severely dealt with in accordance with the law.

**Article 14.** Public security, cultural, press and publication, radio and television broadcasting and administrative departments for industry and commerce should closely coordinate with one another in performing their own specific duties and in strengthening their control over guesthouses, hotels, stores where old and waste materials are retrieved, seal-engraving and printing shops, dancing and karaoke halls, night clubs, theaters and places where people watch video tapes and play electronic games. They must set up a strict control system and properly handle according to law those who smuggle, produce, rent, sell and propagate harmful publications with reactionary and pornographic contents and materials involving sex, killing, violence, feudalism or superstition.

**Article 15.** Public security, communications, railroad and civil aviation departments should strengthen their security checks against contraband along communications trunk lines, railway stations, piers and airports; and deal heavy blows to illegal and criminal activities such as robbery, stealing of goods being transshipped and passengers' money and baggages, and selling train, steamer and airline tickets at high prices.

**Article 16.** Administrative departments for industry and commerce and various departments for urban construction and public security should strengthen their control over trade fairs, markets and vendors, and carry out their work well in combatting and preventing crimes.

**Article 17.** Civil affairs departments should do a good job in strengthening basic-level political power and the mass organizations for self-government; carry out their work well in social relief and public welfare; make arrangements to help disabled servicemen and their family members to settle down; and provide shelters for beggars and vagrants in urban areas.

**Article 18.** Education departments should strictly enforce laws and regulations on education, and strengthen ideological and political work in school. Various types of schools must try hard to admit more students and keep them in school and set up a system to educate students on the legal system and moral and behavioral standards. They should coordinate with the



society and students' families to prevent students from committing crimes, and help educate those students who have committed minor offenses.

Departments of education and public security should closely coordinate with each other to run work-study schools well.

**Article 19.** Based on their own specific functions and whom they serve, mass organizations such as trade unions, the Communist Youth League and the Women's Federation should adopt various forms to strengthen education on political and ideological work and on ethics, and propagate the knowledge of the law among workers, young people and women.

**Article 20.** PLA forces and people's armed police units in the province should energetically build model communities and units established by the army and the people and by the police and the people to achieve cultural progress; and support and coordinate with various localities to improve comprehensive public security. The people's armed forces departments at all levels should organize the people's militia to actively participate in various activities to maintain public order and strengthen border defense.

**Article 21.** Each family must educate all its family members to observe discipline and abide by the law, strengthen unity with other families in the neighborhood and do a good job in carrying out public security work. Guardians should conscientiously fulfill their duties in guarding those who are disabled or partially disabled.

**Article 22.** Citizens should earnestly broaden their knowledge of the law, abide by the law, consciously observe social ethics, help maintain social order, and courageously struggle against illegal and criminal activities.

**Article 23.** Those citizens who laid down their lives in the course of maintaining social order and in the struggle against law breakers and criminals and who have the qualification of a martyr in accordance with the "Regulations for Commending Revolutionary Martyrs" should be awarded the title of "martyr" and their bereaved families be given compensation. State functionaries or workers of enterprises or institutions who fail to meet the requirements of a martyr should be handled according to regulations in dealing with state functionaries or workers of enterprises and institutions who die in the line of duty. Other citizens should be handled by the department of civil affairs in accordance with the "Circular on Question of Compensating People for Injuries and Deaths in Struggling Against Criminals and Maintaining Social Order" issued by the Ministry of Civil Affairs.

**Article 24.** Citizens who are injured or disabled in the struggle against criminals should be handled as if they had incurred the injury or disability in the line of duty. Their medical expenses and living allowances should be borne by the offender or the guardian of the offender. If the offender or the guardian of the offender really cannot afford to pay, the unit where the injured or disabled citizen work should

take the responsibility to solve the problem. If the citizen does not work in any unit, he or she should be handled by the local department of civil affairs in accordance with the relevant regulations of the state.

Local labor departments should recommend jobless people who made contributions in struggling against illegal and criminal activities to fill job vacancies on a priority basis or help them to look for jobs.

**Article 25.** When a citizen who is injured in struggling against illegal and criminal activities and security hazards or mediating in civil disputes, seeks medical treatment, medical facilities should try their best to rescue and treat him or her on time. If a medical unit refuses to treat the injured or delays in giving medical treatment, the public health administrative department should hold the medical unit or the person directly in charge of the unit accountable.

**Article 26.** Public security departments should adopt due measures to protect citizens whose lives and properties are threatened in struggling against illegal and criminal activities.

**Article 27.** Commendations or awards will be given by the people's government, departments in charge of the work of improving comprehensive public security, or the relevant authorities, to those units or individuals that earnestly implement these regulations and meet one of the following conditions:

- 1) One who has distinguished oneself in implementing the public security responsibility system to improve comprehensive public security and maintaining good social order.
- 2) One whose efforts contribute greatly to notably reducing the number of crimes, cases endangering public security and security hazards and to effectively preventing, controlling and cracking down on major criminal cases.
- 3) One who has been ready to take up the cudgels for a just cause, and courageous in struggling against illegal and criminal activities; or has rendered meritorious service in reporting or exposing illegal and criminal activities.
- 4) One who scores other remarkable achievements in improving comprehensive public security.

**Article 28.** Any unit which violates these regulations and carries on any of the following acts should not be named as an advanced unit for cultural progress for this year. Based on their own specific duties, the people's government, department in charge of the work of improving comprehensive public security, and the relevant authorities may educate by criticism or take disciplinary sanctions against the principal responsible person of this unit

or the person directly responsible for this unit, and hold this person accountable according to law, if a crime is constituted:

- 1) Neglecting the work of improving comprehensive public security, causing security disorder in one's respective unit, and seriously affecting regular production, work and life.
- 2) Not doing one's best to unravel factors of instability, solve contradictions or mediate in disputes in one's own unit, causing serious consequences.
- 3) Not exerting enough efforts to strengthen education and administration, causing serious criminal offenses.
- 4) Holding back facts and submitting no reports to the authorities when a crime or major case involving public security takes place.
- 5) Doing poor management work and not exerting enough efforts to eliminate hidden danger, causing a major security hazard.
- 6) Neglecting duties, playing favoritism and committing irregularities in improving public security.

**Article 29.** These regulations shall go into effect on 1 October 1993.

### KMT Faces Isolation, Loss of Popular Support

93CM0412A Taipei TIEN-HSIA [COMMONWEALTH]  
in Chinese No 146, 1 Jul 93 pp 122-29

[Article by Lin I-ling (2651 1942 3781): "Clear Sky, Bright Sun—KMT Completely Isolated"]

[Excerpt] [passage omitted] "No need to hold the 14th Plenary Session. No need to hold elections at the end of the year. No doubt we are going to lose anyway!" roared Ts'ai Cheng-wen [5591 2398 2429], Taiwan University professor who at one time also held party position, at a party meeting to discuss the political mission of the 14th Plenary Session.

The depressing atmosphere is also reflected in the grass-roots. On the campuses, fewer and fewer people would admit that they are Kuomintang [KMT] members; local party departments are deserted; party workers are demoralized. An elementary school principal in Chungli who was a long-time KMT member who had gone from door to door to solicit votes has joined the Democratic Progressive Party [DPP] instead.

Pressure from the out-of-power parties is getting intolerable.

In last December's election, the DPP took a whopping 51 seats in the Legislative Yuan, up from 19 seats, and with the KMT badly split within itself, the DPP has in effect become the "de facto majority" in the Legislative Yuan, calling the shots when writing the budget and at meetings to decide various bills.

For the December elections this year, armed with its administrative accomplishments in seven counties and cities, the DPP has zealously put up 11 candidates, everyone a strong batter. Their slogans are "honesty against corruption" and "unity against division"; they are challenging more than half the county and city seats.

Will the KMT lose its political power? From the grass-roots KMT members and cadres to the central standing committee members, nobody is even trying to hide his or her disappointment. "The KMT is beyond cure," Tu Te-ch'i [3205 1795 6936], Taiwan Provincial Party Committee chairman, told party cadres at a county executive and city mayor meeting. The party is "utterly hopeless" sadly concludes Kuan Chung [7070 0022], member of the Legislative Yuan. "Like a patient who has suffered a stroke, even if there is some strength left in the limbs, there is no escape from the fatal disease," said National Assembly delegate, Chang Li-t'ang [1728 7787 1016].

Just like telling the stories of the rise and fall of the dynasties, there is the same tone of disappointment and sense of fatalism in everyone being interviewed.

However, the KMT must not step down yet. A worried Kao Yu-jen [7559 5148 0088], Legislative Yuan member and also member of the KMT Central Standing Committee, said if the DPP should control the government before there is a national consensus inside and outside of

the government, Taiwan will immediately face a showdown with regard to the national title, the constitution, the relationship across the Strait, and other basic national issues. It will cause serious economic and social upheaval. "If the KMT steps down, it will mean the end of Taiwan." Li Ch'eng-chia [2621 2052 1367], general secretary of the Medium-Sized and Small Enterprises Association, also predicted that if the KMT should fall, Taiwan will face an immediate economic recession.

Even the DPP does not want the KMT to step down now. Realizing that the KMT is slowly losing the people's support and is mired in frequent infighting, many heavy-weight class DPP members have urged again and again that the "KMT must not fall"—this according to the chairman of the Taiwan Provincial Assembly, Chien Ming-ching [4675 2494 2529].

Yet, while comrades, enemies, and the citizens are crying, "Put out the fire." What are those in the fire thinking?

Judging by the speech delivered by party chairman Li Teng-hui before the party campaign cadres at the Yang-ming Institution on National Revolution and Development in June, he is not entirely in the dark about the internal unity issue, supplementary elections, and personnel issues facing the party and about outside criticisms of the party playing money politics. But his opinion on party unity is that "some people are shouting slogans about disunity; they talk democracy but they are the least democratic of them all." As for the arrest of Lin Ping-k'un [2651 3521 0981], the KMT's nominee for Penghu County last year, he said that he was "deceived." Regarding "money politics," he said one should "be clear as to who is playing money politics" and not point fingers in an attempt to split the party. One Legislative Yuan member of the New Alliance said it sounded like Li is trying to blame others.

Despite the pressure of the year-end election and disputes within the party just before the 14th Plenary Session, Hsu Shui-te [6079 3055 1795], secretary general of the KMT Party Central Committee, appears calm and collected. In his opinion, political reforms over the last five years have been extensive, and it is inevitable that there will be disagreements. "Children naturally are rebellious when they reach adolescence." Sitting in his office full of large posters and schedules of the 14th Plenary Session, Hsu Shui-te smiled and reminded the reporters to help bolster the KMT's morale.

Another entrepreneur who is close to the Party Central Committee also says the media have overreacted.

However, the fact is that public opinion polls conducted by various organizations in recent months all showed that support for the KMT has plunged (from 45 percent in the past to 20 percent today.) TIEN-HSIA's own poll shows that more than half the citizens think that if the KMT hopes to continue to get public support, it must urgently resolve the corruption and bribery issues; 42.4



percent of the people believe that the most urgent problem is disunity within the party.

Taiwan University psychology professor, Huang Kuang-Kuo [7806 0342 0948], reminded people not to overlook the political infighting, the corruption cases, and the party's mixing money and power which has kindled deep resentment among the people. When the DPP came up with the slogan "unity against division, honesty against corruption," the people saw clearly the KMT's propaganda had nothing to fight back with. He asserted that the faster the KMT develops democracy, the more evidence of collusion between government and businesses within the KMT will be exposed and the phenomenon of money politics will appear even more widespread.

Legislative Yuan member Chao Shao-k'ang [6392 1421 1660] of the New Alliance pointed out that the standard of KMT's ideologies and ethics has declined steadily in recent years. The National Assembly delegates, high-level administrative officers, and party officials they nominated have made no attempt to hide their involvement in money politics and factionalism. Polls show that these have cost them many middle-class votes.

Cheng Chih University Political Science professor, Yang T'ai-shun [2799 3141 7311] said that the crisis the KMT is facing is not merely a problem with just one or two policies or something that can be explained away by the political struggle, bad nominations, or money politics; rather it is the sum total of all those issues that have caused them to lose popular support.

He pointed out that high-level KMT people obviously have neglected the fact that people tend to change their hearts quickly, and the tremendous influence the mass media have in this late industrial era. For example, he said, 10 years ago who would have thought that Pahlavi [the Shah of Iran] and Marcos would be toppled and Eastern Europe and the Soviet Union would disintegrate?

He further reminded us that when Li Teng-hui pushes for "direct presidential elections" he must not treat this as a ritual in legitimatizing his decision-making power; he must be very clear about the popular will which the party represents and the wish of the people to participate in making the most important decisions. He believes that this kind of awakening to the concept of the people's right to make decisions is also reflected in the advocacy of "citizens' votes." In particular, in the era of instant relay of information, the traditional organized vote distribution, factionalism, or money politics are no match for the people's "rediscovery of their independent strength," he added.

In the Gospel According to Matthew, it says, "A nation divided will turn into wasteland; a city or a house divided will not stand." The KMT's disunity and internal strife in fact have paralyzed party affairs and weakened the party. Not only are local party departments unable to make major decisions, several of the KMT-run intermediaries are unable to distinguish who are the "archenemies" who must be disposed of first;

instead, they have to "cross the river by groping rocks," a China Central Broadcasting news reporter says.

The minutes of the party's group meetings used to be edited; today, the leaders do not care anymore; they don't even pretend to go through the motion, a voluntary party cadres said. In early June, Chang Chin-hua [1728 6930 5478], chairman of Taiwan University's New Research Institute, campaigned for her husband Lin Huo-wang [2651 3499 2489], a philosophy professor, who was running for a delegate seat in the 14th Plenary Session. In the process she discovered that the party has lost touch with many Taiwan University faculty and staff who had once worked enthusiastically for the party; they did not even register and naturally they could not vote.

Yet, the local Taiwanese saying, "thief crying thief," is clearly displayed when everybody in the KMT is pointing the arrowhead at everybody else.

The non-mainstream factions accuse the mainstream factions for their arbitrary and dictatorial behavior. The mainstream factions accuse the other side of splitting the party. The grass-roots party workers blame the high-level personnel for sowing discord; local representatives blame the government's improper administration; government officials resent the lack of policy coordination between the party and the Legislative Yuan members. "The KMT's crisis is the (party comrades') failure to realize that they are the ones creating the KMT crisis," said a scholar who has been observing the KMT problems with an objective eye. One side says, "Uncooperative people really should not shout slogans," while the other side says, "Those who want others to unite must show some sincerity of their own." One side has no intention of uniting and is determined to hang tough to the end to let the 14th Plenary Session ballot decide the outcome; the other side is calling it a rotten party, bad party, but is looking on unfeelingly, waiting for it to turn into ashes. "Even if the party collapses, things couldn't be worse than what they are now," a current KMT Party Central Committee supervisor-rank party worker figures that that is what the non-mainstream factions are thinking. Another grass-roots party worker refuted the idea, saying that it would be most stupid to force the enemy's hand. To lead means leading people of different views; it is not to pick fights and bring things to a deadlock.

Naughty, raucous school children should be rehabilitated, not expelled, because expelling them only shifts the problem from the school to society—Hsu Shui-te, who has been working laboriously to mediate the two sides, has been saying this ever since he took office.

A veteran political reporter who has been observing the domestic political situation pointed out that KMT mainstream and non-mainstream factions have their own opinions and their own blind spots. For example, with respect to putting a handle on grass-roots public opinion, Li Teng-hui has many channels and can find out in great depth about what the people want. He often asks Executive Yuan President Lien Chen, and KMT Secretary General Hsu Shui-te, to go to the countryside to see what

is going on. The non-mainstream factions have a handle on the urban voters, particularly on what the intellectuals think and about the people's resentment toward the public policies and the corruption and bribery cases. They not only can win votes but to some extent they have won the party members' and public support (such as the Sunshine Bill).

"Neither side understands public opinion in its entirety," said the above-mentioned scholar. For example, one side emphasizes the KMT's contribution to the economic development, saying that those who criticize the KMT's money politics and corruption are trying to split the party. The other side cites the wide gap between extreme wealth and poverty in society, stirring up the people's anti-business sentiments, so that the real nature of society's inequality is obscured.

A manager of a party-run institution eyeing the party's internal split from the sideline said: "The couple is suspecting each other of having affairs; how can they make up?"

Failure to communicate has resulted in heightening conflicts among the different factions. For example, the failure to communicate on the nation's goals has caused the party to lose its cohesive force. Within the KMT, there is a "Chinese KMT" and a "Taiwan KMT": there are those who support unification, who are filled with the idea of a great China; there are others who are more concerned about their homeland, who want Taiwan to come first. These two camps disagree on most major issues; neither is willing to listen to the heart-felt aspirations of the other or try to understand the other side's good intentions. "They only see the thorn in the other's eye but not the pillar in their own eye," said one observer.

Misunderstanding and prejudice have also added to the complications. Critics say that, in the absence of complete and accurate information, Li Teng-hui's self-confidence and subjectivity have only resulted in even greater self-confidence and subjectivity. On the other hand, members of the New Alliance in the Legislative Yuan firing shots at the party to stimulate the KMT's response to democracy within the party has only brought criticisms of "fanaticism."

DPP Legislative Yuan member Shih Ming-te [2457 1795 2494] watches the KMT's internal disputes and sighs, "Power can be shifted, but prestige cannot be inherited." In his opinion, the leaders are standing too tall and are unwilling to bend, and this is the main reason for the incessant power struggles within the KMT.

Thinking back, a general secretary of the Party Central Committee's policy committee said that perhaps time was short, or perhaps because of his negligence, right after Li Teng-hui took office, he took charge of the National Affairs Conference, the Constitutional Reform, and the Mainland Affairs system—all without first consulting the party heavy-weights to try to reach a consensus. To then ask the party members in government and in the National Assembly for cooperation afterwards

would naturally run into obstacles. Many people still have deep impressions of how the drastic change in the format of presidential election split the party internally and left those in charge with dirt on their faces.

However, a high-ranking Taipei party department worker reminded us that the important thing is not those people who grumble about disunity but those people whom the mainstream factions have assigned to man the strongholds. Is everyone of them put in the right place for the right reason?

For example, he asked, are the county executives and mayors nominated by the KMT hard-working? Do they love the people? Are they honest? Are the nominees for Yuan chairmen and Legislative Yuan members clean and upright? Are the local party department's party affair managers in high spirit, and do they go deep into the grass-roots? If the people working for you are not qualified or not right for the jobs, then you will not be able to plant a strong foothold. One push, and you will be down.

This high-ranking party worker pointed out that if the KMT mainstream factions truly feel no guilt and have strong self-confidence, they can ignore the non-mainstream factions, and there will be absolutely nothing left for them.

However, should the KMT abandon the consolidation and drive out the opposition? Chien Ming-ching, chairman of the Taiwan Provincial Assembly, cited his own campaign as example. Three years ago, to gather votes, he went all over Hengch'un Peninsula and even went to little places like Maopit'ou, Yaluanpi, and Hsiangchiaowan to get whatever vote there was, let alone winning over the talents and the votes of the opposition camp! Meanwhile Legislative Yuan member Kao Yu-chen is worried that the party's internal split will cause serious problems with unity among the nationalities and races; this is of special concern. He said, if the KMT is actively working to win over the 300,000 natives, if 3 million (one-sixth) non-native people resist, can Taiwan withstand it?

Li Ch'eng-chia used a more sympathetic tone when he said that it is not easy to be the housekeeper, but one must be patient, wait, and not make the conflicts worse. "Win, even if it is ugly; don't lose, even if it is pretty," he suggested. [passage omitted]

#### **'Unending Power Cycle' With KMT Characteristics**

93CM0443A Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese No 334, 7 Aug 93 pp 18-21

[Article by Nan Fang-shuo (0589 2455 2592): "Key Minority Terrorist Retaliation, Old Fisherman Minority Gets Benefits; Possible Future Taiwan 'Three Party Structure' Seen From Formation of New Party From New KMT Front"]

[Text] [Excerpts] [passage omitted]

Because Taiwan's democracy is still very shallow, will more or less everyone be engaged in politics on Taiwan, or will it be "past strongmen" or "present strongmen" or "future strongmen?"

The Kuomintang's [KMT] break-up was inevitable because the KMT lacks introspection and the 14th Congress is only the ignition. The break-up of the KMT is by no means something new, it is only a genetic "throwback." The previous generation's hereditary characteristics continue to appear—when Sun Yatsen passed away, the interior of the KMT disintegrated and each faction established its own stronghold. As a result, the party congress surprisingly came out with the "triplet plan." The KMT's predestined split actually is only a reappearance of this experience, and in nearly eighty years, the KMT's only progress is to reduce the "triplet plan" to a "twin plan."

The longer and the deeper that anyone observes the KMT power system, the more he can discover that it is by nature an extremely serious clannish party—Certainly in different periods it can be given various different names. It can be called an "authoritarian party," a "revolutionary democratic party," or even a "clannish warlord party." Casting aside its different names and directly exploring the make up of its power, its characteristics are:

- 1) It can only have a stable situation under "one man." When they have this "one man," under this "one man" they inevitably have rival warlords storing up their power waiting to unleash it. Each takes charge of his own domain, and the "master" must bring divine wisdom to mediation and compromise to maintain a dynamic balance. When this "one man" disappears, the long stored-up force of the strongholds must totally unleash a power struggle, the long-time chaos must emerge, and ultimately the losers are totally banished. In uncivilized times the exit of the losers can be to be killed or be forced to betray (like Hu Han-min and Wang Ching-wei). In civilized times, the losers can be sent to prison (like so many that the legislative oversight committee purged in the name of corruption and malfeasance when the KMT first came to Taiwan). The longer this unending power cycle [*samsara*—the indefinitely repeated cycles of birth, misery, and death] goes on, the more splits it causes in the KMT and its power must constantly shrink. The KMT power *samsara* causes it to be unable to cast off its old self and become a democratic party.
- 2) Because of this power *samsara*, the basic structure of the KMT has gradually become a layered structure with various groups of hard-core followers at its core. When I am party chairman, I must have a uniform group of hard-core followers to be secure. Beneath every hard-core follower there certainly is a group of hard-core followers. "Hard-core followers" in the KMT system is an expression of the deep structure of the power structure and even surfaces as a term. It is

not without reason that the term "hard-core followers" is peculiar to the vocabulary of Taiwan politics. "Uniform hard-core followers" have been essential to the KMT at every stage of development. The KMT can absolutely never be in a situation where "uniform hard-core followers" do not appear—except during times of struggle.

- 3) Because of this power *samsara*, in the KMT system, contemporaries have never understood the political logic of peaceful coexistence and good competition of capabilities. They only understand the Eastern power logic of being envious of one's contemporary, surreptitiously slandering, and spreading rumors that injure to maintain one's own power. This kind of power logic even more gives the very top person an excuse for collective leadership. The entire KMT is a party that has no way of maintaining a political party without a strongman.

Because of the collective nature of the KMT, it can be clearly grasped that in the "post-Chiang Ching-kuo era" the inside of the KMT has become a chaotic group "without anyone in charge." In Lee Teng-hui's rapid concentration of power and launching of a "uniform situation" arrangement, a great many people have been banished one after the other. The problem is that the present KMT is not like in the past. Its long-time idleness has long since dried up its talent. In order to quickly concentrate his power, Lee Teng-hui has had no choice but to gradually recruit from local forces. This wave of power recruitment has caused a self-negating predicament to emerge in the KMT. This has played a part in changing the unified arrangement of internal stability to "factionalism" and "money politics." This byproduct has produced the disastrous effect of ever lessening the ethics and legitimacy of the KMT, and has given the opposition in the party another "destroy the party to save the party" justification. The "mainstream faction" has gradually strengthened its control within the party, but the image of the overall KMT has been quickly devalued, and on the contrary the rebellious banner of the "nonmainstream" is being raised ever higher and has changed from clandestine struggle to open struggle. This has been the essential thread of the overall development of the KMT in the past year, and extending this thread it certainly is inevitable that the 14th Congress with the significance of a "decisive engagement," would certainly inevitably push the entire KMT toward a split.

Since the pairs of great victories of the Democratic Progressive Party [DPP] and the "nonmainstream" in last year's legislative elections and the great defeat of the "mainstream," a decisive split between the KMT "mainstream" and "nonmainstream" was inevitable. The "mainstream" refused to recognize the election defeat and thought of it only as the fault of the "nonmainstream" destruction. The election loss strengthened the "mainstream's" decision to thoroughly expel the "nonmainstream." This decision is clearly revealed in every realm of the two sides' confrontation. From "Dump Hao," the military leadership reshuffle, and the



National Construction Plan adjustment to the county magistrate and mayoralty nominating primaries, this decision to thoroughly expel the "nonmainstream" can be seen everywhere. This is all summed up in the preparations for the 14th Congress. Beginning with increasing the ex-officio party delegates to 700 people to obtain absolute control of the congress, the "mainstream" that controlled the party mechanisms deployed their "force annihilation" strategy. It is understood that this deployment included: At the 14th Congress, except for the Central Committee's having their seating arranged in accordance with the old pattern, the seats of all the rest of the delegates are divided by region. They are marshalled by the main committees of various county and municipal party headquarters and the "mainstream" representatives of the regions to control the order of the congress and destroy the "nonmainstream's" opportunity to establish contacts and stir up trouble.

The party central committee, to guard against the "nonmainstream's" interfering in the agenda, are deploying a motion and signature force at the congress made up of 90 delegates and at all times use joint signatures and motions to counter possible "nonmainstream" interference. They also are attempting to devise a system to draw lots for the right to speak.

They have gone all out to control the election of party delegates to acquire an absolute majority of the party delegates and use human wave tactics to put an end to noise.

On the strategic level as regards the party vice chairman issue and the issue of electing the central committee, the "mainstream" bases its thinking on "annihilation" and is not prepared to be overly courteous. So, there is the new noise of Lin Yang-kang constantly calling for the "principle of sincerity."

The "mainstream" strategy actually consists of such viewpoints as: "I do not want the possibility of leaving this party," and "With fewer than 700 party delegates what credentials negotiations do we still have?" from such important "mainstream" people as Hsu Shui-te.

[passage omitted]

The "nonmainstream's" New Kuomintang Front is preparing for a decisive split with the "mainstream" and the establishment of a new party. Politically speaking, this is "minority faction terrorism." The minority when it has given up hope and turned to terrorism no longer has systematic restraints and uses the extreme minority's destructive and harassing role to accomplish the greatest peripheral results. So, peace officers greatly fear terrorists and politicians also greatly fear terrorists. When the New Kuomintang Front established another faction, it can be assured that with its style and enmity toward the "mainstream" and its inevitable "political terrorism" role relative to the "mainstream," at some time the KMT problem also will become more troublesome and irresolvable.

With the New Kuomintang Front establishing another faction, just because of their sophist logic of "destroying the party to save the party" and the appearance of a new faction, the "mainstream" faced with the threat of this "political terrorism," obviously must buy off the other borderline people inside the party or incorporate them into their own forces to keep these borderline people from continuously defecting to the new faction. This is "saving the party," but if the "mainstream," because of this threat, accelerates centralization and is suspicious and jealous of the borderline people and takes precautions against them, the new party could continue to grow. Would that not be "destroying the party?" However, the KMT would appear not to have a great possibility of "saving the party" by establishing another faction.

The minority faction split off from the KMT is a new party. In a short period of time, the new party cannot expand too fast. The other borderline people in the KMT will continue to wait and see, expecting that this kind of huge change can increase their value to be incorporated. However, the split itself is one huge change, but the shock after the split is even more worthy of note. The greatest immediate harm to the KMT from the splitting off of the new party is that its ethics and legitimacy are even more weak and the county magistrate and mayoralty elections at the end of this year will be even more difficult to win. Especially the upper echelon split is bound to legitimize the dissatisfaction of the lower echelon strongholds. Local factions or peripheral politicians that have not been nominated have reason to refuse to be made to conform. The upper echelon split seeps down and no one can forecast to what extent the water drops will penetrate the rock. [passage omitted] The New Kuomintang Front is a key minority in the Legislative Yuan. Aside from their differences in national identity, they are extremely similar to the DPP. They both are modern expressions of professional politicians and have rather exquisite skills in legislative battles. And they both are equipped with a capability to rather accurately reflect society. This "key minority" is an "influential minority" with the DPP and for a period in the past controlled the Legislative Yuan, because they defeated the "silent majority mainstream" legislators on major issues. In the future, the "two party three faction" structure will be a "three party structure," two active medium-sized and small parties facing a relatively incapable majority KMT. These KMT legislators are generally people of traditional temperament whose local faction identity is greater than their party identity. The vertical and horizontal relations within the three party structure are bound to become more complicated. If the DPP intends to advance its administration by appropriate activities and psychological warfare, theoretically it would not be difficult in an instant to change to a majority and bring down the cabinet and have an opportunity to reorganize the government.

The KMT split and the three party politics for democratically backward Taiwan is a political form that will have an even harder time seeking stability. Future Taiwan

politics will be even more unstable. The system in the KMT, formed by relying on combined benefits, will be more flexible and people from local factions, faced with this situation, will even more "conserve their power," and after accurately determining the opportune time they could bet on seeking a vote. This means that the entire KMT system would more quickly disintegrate. This disintegration would very closely resemble the situation on the eve of the KMT's losing the mainland in 1949. The KMT's development is a string of internal struggles. The more they struggle over the form, the less progress. Perhaps the present chaos is truly an omen of the KMT's loss of power. But without a doubt, the DPP will inexplicably be the biggest winner.

The KMT split, as far as the "mainstream" is concerned, has been building up for a long time waiting to be unleashed, with the trump card of the participation of Lee Teng-hui in a direct presidential election seems to have reached the playing time ahead of time. For sycophants and supporters perhaps only by playing this ultimate "Lee Teng-hui card" can they salvage a little momentum. However, in the face of the KMT split up and collapse, even if Lee Teng-hui participates in the election, I am afraid that they cannot be assured of winning control.

Up to now the "post-Chiang Ching-kuo era" has just been a little over five years, but if we look carefully at the total process of the disorder of the KMT, other than praising this as a masterpiece of "talent," it probably would be hard to find words to describe it. But in the final analysis, perhaps we can only say that this is the samsara of KMT power. [passage omitted]

#### **Investment on Mainland Surges, Rules Relaxed**

93CE0865A Beijing JINGJI RIBAO in Chinese  
23 Aug 93 p 3

[Text] On 12 August, the Taiwan "Executive Yuan Mainland Affairs Council" adopted in principle the "Licensing Measures for Engaging in Business Activities in the Mainland Region" that was drafted by the "Ministry of Economic Affairs [MOEA]," giving greater latitude to Taiwan enterprises to accept offers to engage in business activities on the mainland such as management consulting, research into business conditions, commodity promotion, and business development.

Based on a report from a Taiwan source, the licensing measures stipulate that the "MOEA" is responsible for approving seven types of commercial activity on the mainland, including 1) the various types of management consulting services needed for commercial and industrial activities; 2) commodity sales promotion and various types of promotional services; 3) research into business conditions; 4) production technology investigation and research and related information gathering; 5) conducting or participating in business development; 6) exchange of products and services; and 7) other business activities announced by responsible governmental agencies. Observers feel that the implementation of these

licensing measures will expand the mainland business activities of Taiwan entrepreneurs.

"Vice-secretary" Gao Konglian [7559 1313 1670] of the "Mainland Affairs Council" indicated that, although the business activities mentioned above are not easily classified as "indirect" or "direct," and there are no standards spelled out in the licensing measures for such classifications, indirect activity is considered the standard and mainland business activity is classified as indirect, so businesses must still provide "post transaction reports."

At the same time, Taiwan's "MOEA" has decided to relax restrictions on factory and business inspection and participation in mainland commercial development. Henceforth, Taiwan businesses engaged in commercial development on the mainland need not apply for permission with the "Board of Foreign Trade," but need only report their activities to the "MOEA Commerce Department."

Recently, Li Shujiu [2621 2885 0036], the "MOEA vice minister," indicated that Taiwan's "Bureau of Entry and Exit" currently receives applications from Taiwan businesses seeking to visit the mainland for inspection purposes, while the "Bureau of Foreign Trade" issues permits to businesses going to the mainland for product conferences and commercial development. Henceforth, the above-mentioned rules will be revised and made part of the "Licensing Measures for Engaging in Business Activities in the Mainland Region," while restrictions will be greatly relaxed.

Clearly, the willingness of Taiwan authorities to allow factories and businesses to expand the scope of their mainland activities is due to the fact that investments of Taiwan factories and businesses on the mainland continue to rise. Investments this year were 570 percent more than the same period last year, ranking second on the list of mainland foreign investment sources.

The most recent monthly report of major mainland statistics by the Taiwan "Executive Yuan Directorate General of Budget, Accounting and Statistics" shows that the amount of Taiwan business investment on the mainland has grown year after year, and that in addition to labor intensive medium- and small-size enterprises, large capital and technology intensive production concerns are also beginning to "hit the mainland" in search of growth. Taiwan's "Economic Minister" Jiang Bingkun [3068 0014 0981] feels that Taiwan-mainland entrepot trade benefits both sides and helps the mainland to increase exports. He points out that, although the mainland has a negative trade balance with Taiwan, the mainland is not going to adopt policies to restrict imports from Taiwan.

Related information reveals that Taiwan-mainland entrepot trade conducted via Hong Kong continues to grow, with Taiwan having sent over eight billion dollars worth of exports to the mainland via Hong Kong over the first half of this year. This is more than 30 percent

greater than last year's amount, and Taiwan's favorable trade balance with the mainland continues to skyrocket.

Recently, Taiwan's industry has greatly stepped up its mainland investment, while avenues of investment have greatly increased. Based on a report from a Taiwan source, on 12 August the Taiwan "MOEA Investment Commission" approved 143 applications from Taiwan enterprises to engage in mainland investment amounting to \$95.3 million. This is the largest batch of applications for mainland investment by Taiwan enterprises examined and approved by Taiwan authorities in one sitting in recent times, and investment items have expanded in detail.

Among the 143 applications for mainland investment approved by Taiwan's "Investment Commission" were requests for investment items by many publicly traded companies like the China Chemical & Pharmaceutical Company, the Pacific Construction Company, the Formosan Rubber Group, the Mingjiali Metals Industrial Company, and the Taiwan Glass Company, while the other applications were for smaller investments of less than one million dollars.

Among the fairly large investment items approved were: an investment of \$3.85 million in Suzhou by the China Chemical & Pharmaceutical Company to set up the

China Chemical Pharmaceutical Products Industrial Company to manage production and sales of such items as western pharmaceutical preparations, toothpaste, and mouthwash; an investment of \$2.7 million in Ningbo by the Formosan Rubber Company to establish the Formosan Sizing Materials Company to manage the design, manufacture, and sales of rubber rafts, air mattresses, foaming agents, and polyurethane cosmetic plaster, among other things; an investment of \$2 million in Shanghai by the Pacific Construction Company to establish the Shanghai Pacific Department Store; an investment of \$2.2 million in Qingdao by the Taiwan Glass Company to set up the Qingdao Yahua Glass Factory; an investment of \$1.7 million in Wujiang by the Mingjiali Company to establish the Wujiang Fuli Metal Products Company; an investment of \$1.2 million in Wuhan by the Zhulian Industrial Company to set up the Wuhan Ceramics Factory; an investment of \$1.7 million by the United Food Company to establish the Beijing United Food Company; and an investment of \$1.7 million dollars in Shanghai by the Jiulian Chemical Company to set up the Shanghai Jiulian Company. To date, Taiwan businesses are still not permitted to directly invest in the mainland, but instead must transfer funds and materials via a third region.



**Government Legitimacy in Retrospect, Prospects**

94CM0015A Hong Kong KUANG-CHIAO CHING

[WIDE ANGLE] in Chinese No 252.

16 Sep 93 pp 80-93

[Unattributed article]

[Excerpts] [passage omitted] In an overwhelming number of colonies, colonial rule depended on armed suppression for its support. Hence the principal reason that people under colonial rule obeyed the authorities was fear of being stripped of their material goods and suffering bodily injury. Under such circumstances, the colony's legitimacy was an unstable and at the same time an indefinite matter. Not only was the authority of the colonial power subject to the ridicule and challenge of the people, but in addition the colonial rulers were forced to make a substantial investment in the tools of repression (military, legal and political), and this was the only way they could maintain their position of political control as colonial rulers.

In the history of colonialism, Hong Kong enjoys a unique position. This is due to a number of factors which have made Hong Kong different than other colonies. There is no doubting the fact that Hong Kong has the highest level of industrialization of any colony in the world. At the same time, it also is a very "tranquil," submissive, and self-satisfied colony. In the overall history of Hong Kong, it is difficult to find a serious anti-colonial movement. With the exception of having been occupied by Japan on two occasions during the period of the world wars, the colonial administration has consistently been on the whole peaceful and smooth. Though Hong Kong's constitutional system has gone through some changes, the colony's administrative style has in fact changed little from that of the past, and the nature of Hong Kong's ruling stratum as before is a politically self-perpetuating bureaucracy and economically an essentially Anglo group.

There is a fundamental difference between Hong Kong and other colonies, and this difference, involving the legitimacy of colonial authority, harbors important implications. Hong Kong differs from other colonies in that it was seized by force from another sovereign state (China) when that country found itself in a weakened state, politically and militarily. The primary motive of the British in taking Hong Kong was not territorial expansion, but to have a secure base in order to preserve and promote their economic interests in the Far East. In the history of Hong Kong as a whole, China for the majority of the time has been in the throes of the chaos of wars and upheaval. In order to pursue opportunities for economic development, evade political persecution, or in order to seek protection for themselves and later generations, large numbers of Chinese left China and poured into Hong Kong. When it was seized by the British, Hong Kong was only an island that had lain unused, and lacked signs of human habitation. Therefore, another characteristic that makes Hong Kong different from other colonies is that fact that the colonial people arrived after the colonial government had

been established. This means that those Chinese who decided to come to Hong Kong to live had no intention of challenging the British colonial authority. On the contrary, a considerable degree of common interest existed between the colonial regime and the colonial people, and these common interests ensured that Hong Kong's colonial position would not be threatened due to internal factors.

Second, in order to develop a colony with no natural resources to speak of requires the attraction of a sizeable quantity of talented people, hence the colonial government also had to implement enlightened rule in order to attract Chinese immigrants to come to Hong Kong, particularly those possessing funds and skills in production. The result was that when we speak of the Chinese people of Hong Kong, though they lost political power, under a generally fair-minded legal system, they obtained ample freedom to make money as compensation. This was naturally accompanied by a relaxation of racial contradictions, and the racial contradictions then were primarily obscured, and did not manifest themselves politically. Under this enlightened colonial administration then, increasing numbers of Chinese wishing to obtain the benefit of living under such an administration poured into Hong Kong, in the end giving Hong Kong a very swollen population, and because Hong Kong was able after the war to reap benefits in a recovering world economy, it has been able over the past 40 years to maintain a high rate of economic growth, and the legitimacy of the colonial government in the eyes of the people of Hong Kong has naturally increased.

For a long period of time, anti-colonial sentiment has come from the sense of shame and humiliation in the hearts of the colonial peoples. Theoretically, among Chinese this feeling of shame should be especially pronounced and make people feel bitter. This is because people can obtain a national sense of dignity from the glorious culture of their forefathers, and cannot remain aloof from the nationalist wave that emerged on the Chinese mainland and the post-war anti-colonial movements. Moreover, it is ironic that after the establishment of Communist China under the CCP, even if Hong Kong Chinese harbor feelings of shame and humiliation towards the colonial administration, this feeling has been diluted due to two factors: their aversion to CCP rule, and their own utilitarian outlook. Both of these factors make Hong Kong people willing to accept colonial rule, even though they certainly do not enthusiastically approve of it. In addition, people also have consistently believed that China has sufficient military forces and political skill to be able at any time to recover sovereignty over Hong Kong. This convinces Hong Kong people that Hong Kong should perpetuate colonial rule, not because China's national power is weak or the Chinese nation has rotted and could not stand it; on the contrary, it is an astute and practical political arrangement that both China and Hong Kong Chinese derive benefit from.

On the other hand, no matter whether we are talking about the Manchu Qing Government, the Kuomintang (KMT) Government or the Chinese Communist Government, one Hong Kong person not willing to accept a Chinese Government would in reality be supporting Hong Kong's

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rule, because it has reduced the dependence of the colonial government on armed force for suppression to maintain political control. Because Hong Kong Chinese are not able to resort to seeking political independence in order to break free of colonial rule, they must transform the words of political discourse, and the only really feasible approach then is to accept the monopolizing power of Chinese government rule, but this is something they are unwilling to do. Therefore, in the history of Hong Kong, it has been the case consistently that the colonial administration is one that has accepted a Chinese Government "subsidy," and this has meant an important reduction in the use of force in repression to maintain the colonial administration, and enabled an enlightened government to become possible.

Generally speaking, in raising the issue of the legitimacy of the colonial authority, factors such as the historical roots of Hong Kong as a colony, Hong Kong's administrative patterns, Hong Kong's economic development, the makeup of the colonial population, the influence of factors related to China, and Hong Kong's lack of political independence, all play a part. Nevertheless, we still have not solved the problem: What exactly is the primary basis of the colonial authority's legitimacy that supports colonial rule? The answer to this question has great significance when it comes to the final few years of colonial rule and how the post-97 Special Administrative Region (SAR) Government will establish authority.

The findings of this study give us some assurance that we will be able to handle this question. It is clear that Hong Kong Chinese do not accept colonial rule because the colonial government reflects their so-called concept of an ideal government, or in other words, the colonial government does not rely on peoples' "normative compliance," (people comply with the government because it is in accordance with people's value concepts and social norms) to maintain its rule. Just as the above discussion clearly indicates, armed repression has played a limited role in the process of ruling Hong Kong. For this reason it may be said that the authority of the colonial power has not been primarily established on the basis of normative compliance and "coercive compliance" (compliance is based on fear or armed repression), and normative and coercive factors still cannot play a role or lack a role in the process of maintaining colonial rule.

Contrary to the understanding of the common man, the dislike Hong Kong people feel towards the Chinese Government is not the principle factor in their acceptance of colonial rule, though of course factors related to China still have some importance. This being said, the colonial government is not able to simply hold that because they fear a Chinese take over of Hong Kong, people will thus comply with it. Hong Kong's past history clearly shows that if the government is not capable of satisfying people's needs, they also will make things difficult for the government. World opinion generally has not been sympathetic towards colonialism. The Chinese government, at a time when a colonial government is going against the historical trend, can also

intervene by force, if needed, in Hong Kong affairs. If any serious turmoil were to emerge in Hong Kong that was of an anti-colonial character, even if Hong Kong people were not demanding the overthrow of colonial power, the colonial rulers would be put in a very difficult situation. Hence, the China factor could be regarded as an important factor beneficial to the legitimacy of the colonial regime, though this factor does not ensure that colonial administration could not be challenged by the people of Hong Kong.

Our research indicates that popular trust in Hong Kong's political system is explained in particular by faith in the government of Hong Kong, and this has a great deal to do with the legitimacy of the colonial regime. In a certain sense, the colonial administration has achieved some results in terms of transforming the political culture of Hong Kong Chinese. This could reflect the fact that people consider the rule of law more important than rule by man. Hong Kong people are inclined to consider a good government, and a good system more important than a competent leader. This thesis has actually been clearly proven. During our 1992 survey, we asked respondents if Hong Kong's administration was being handled well, was a good leader in fact important, and was a good political system important? Slightly more than half of the people (54 percent) believed that a good political system was quite important, but only 25.3 percent considered both a good leader and system equally important. Only 11.6 percent believed that a good political leader was very important. These survey results reveal that after having gone through a process of habituation, a half century of rule by law and bureaucratic administration in Hong Kong has produced in the minds of the people of Hong Kong an understanding of and respect for an impersonal and rational system as one that can ensure good government. Therefore, we can even go so far as to say that in the authority of Hong Kong's colonial regime there is a component of rational legal legitimacy.

However, upon further analysis, there is no doubt that the utilitarian considerations of the people of Hong Kong occupy a key position in the process of public acceptance of colonial government, and thereby indirectly also deeply influence the legitimacy of the colonial regime. Peoples' acceptance of the colonial regime represents their display of appreciation for the government administration, particularly individual and social effects they themselves have experienced. Amitai Etzioni developed the concept that the authority of a colonial regime is built on the utilitarian compliance of the colonial people (compliance conforms to their own interests). In other words, the primary reason Hong Kong people support the colonial regime is because they obtain benefits from the administration carried out by the Hong Kong government.

In the modern world, an important trend is that various regimes all rely on their ability to amply supply people's material needs in order to establish their legitimacy. Hence Weber divided authority into traditional style authority, legal style authority and authority based on attractiveness; for interpreting whether a country is



advanced or developing, the political legitimacy of a capitalist or socialist country more and more loses its meaning. [passage omitted]

Hong Kong's unique circumstances have mitigated feelings of shame in peoples' minds towards colonialism. Therefore, though Hong Kong's political position is colonial, the primary basis for the legitimacy of the colonial regime is the same as for the regimes of other sovereign countries. What is most surprising is that over the past several years, though the authority of the colonial regime has been declining, it is able as before to maintain a comparatively high level of public acceptance. The acceptance levels of ruling regimes of a large number of countries (including advanced countries) pale in significance.

Because the colonial administration is nearly at its end, there are two questions which have become urgent. The first question is, in the process of moving towards 1997, what will the legitimacy of the colonial regime be? The other question is: after Hong Kong has been returned to Chinese sovereignty, what effect will the legitimacy enjoyed by the colonial regime have on the new regime? Here we will consider an initial inquiry into these two issues.

On the question of legitimacy during the final few years of colonial administration, we can anticipate that the authority of the short-term government will unavoidably suffer a gradual reduction, unless it is able through even better administrative work to raise its decreasing legitimacy. Hong Kong people generally consider the authority of the Hong Kong government to be weakening, and believe that it has no means to reverse its loss of authority. In our 1992 survey, 62.1 percent of respondents felt that the Hong Kong Government has less and less authority, while only 28.9 percent had a different view on this. Among those who felt that the government of Hong Kong is losing authority (some 539 people), the vast majority (92.6 percent) were worried that if the Hong Kong Government did not have sufficient authority, much conflict could arise in the society. Among these, 62.1 percent believe that the Hong Kong government should take a firm stance against those who challenge its authority, while 25 percent opposed this approach. As for what was most unfavorable over the next several years to the maintenance of the legitimacy of the colonial regime, 57.3 percent believe that the Hong Kong government will not have an opportunity to restore its authority, and only 28.2 percent of respondents maintained a relatively optimistic view on this issue.

In addition, during the 1992 survey, 66.8 of those interviewed registered sympathy for the Hong Kong governor's loss of authority. They felt that if more and more people did not have the respect for the governor they had had in the past, this was an unhealthy phenomenon. Only 19.9 percent did not agree with this.

With the approach of 1997, feelings of resentment towards things political will naturally continue to increase. People will more and more doubt the intent of the British. This

will progressively weaken the legitimacy of the colonial regime. The morale of public servants is low, and this will surely weaken the effectiveness of the administration of the Hong Kong government, hence undermining the foundation of the colonial regime's authority. Naturally, the authority of the government will decline, and this will certainly produce an unfavorable effect on its work, because it will more and more lack the ability to deal with those people who oppose its administrative decisions and resolutely push public policy.

Though we anticipate that from now until 1997 the legitimacy of the colonial regime will continue to decline, it is most probable that the legitimacy will be maintained at a fairly decent level. Because the short-lived colonial regime still enjoys legitimacy in the peoples' eyes, the new governmental authority that will succeed the colonial regime will face the problem of how to establish its own legitimacy. Because the end of the colonial administration does not stem from a public demand, the new regime will not be able to rely on anti-colonial sentiment to establish its legitimacy. In addition, the new regime will could also very well be viewed by Hong Kong people as approving of the interests of China, or even as accepting the guidance of the Chinese Government. For this reason, the new regime is very likely to encounter legitimacy problems. In addition, the continued legitimacy enjoyed by the colonial regime will hinder the development of local leaders. This is because Hong Kong people still are not able to affirm that local political figures with aspirations are the suitable choice to replace the colonial government through the promotion of "Hong Kong people ruling Hong Kong." Under these circumstances, before its departure, the colonial regime also does not feel the urgency to surrender power. The result is that the problem of legitimacy the new regime will encounter will not go away after the colonial rulers depart because local leaders carrying the hopes of the people will enter the new government.

Nevertheless, from another angle, because the legitimacy of the colonial regime is very narrowly established on the utilitarian considerations of the colonial people, it is very possible that after 1997 they will have similar expectations towards the new regime. Therefore, if in the future, Hong Kong's economy continues to flourish and prosper, and the administrative work of the SAR Government is generally satisfactory to people, then the problem of legitimacy of the new regime should not be too serious. However, if the new regime hopes that its legitimacy will be able to reach the level of the colonial regime during its heyday, then it will need to do a lot of work in order to remove the public doubts about Chinese government policy towards Hong Kong. Still, no matter what happens, even if it is able to achieve results, it will perhaps require a long period of time to accomplish.

For this reason, in the days after the complete dissolution of the colonial administration, the new regime's legitimacy in the eyes of the people of Hong Kong will likely not be the same as that of the old colonial regime.



This point having been made, what distinguishes Hong Kong from other colonies is the fact that other colonies, when they are separated from their original suzerain state and announced their independence, the authority of their new regimes in general was higher than that of the old colonial regime.

#### **Reaction to PRC Economic Retrenchment**

94CE0022A Taipei TS'AI HSUN (FINANCIAL INFORMATION) in Chinese No 9,  
1 Sep 93 pp 269-270

[Article by Yang Sen (2799 2773): "Hong Kong Businessmen 'Feel Their Way'—What Can Hong Kong Businessmen Do To Deal With Mainland Economic Retrenchment?"]

[Text] In early July, the Chinese Communists announced the appointment of Deputy Premier Zhu Rongji as director of the People's Bank of China. This was followed by the publication of Document Number 6, which set forth 16 specific measures that raised the curtain on the quick and vigorous revamping of the mainland's financial system. Since every previous loosening of the Chinese mainland economy has brought disarray and each tightening has brought death, how great a jolt this financial retrenchment and macroeconomic regulation and control will bring is naturally a matter of general concern.

#### **Hong Kong Financial Groups Talk More Than They Act; No Big Impact**

One of the things that attracts most attention is the actions that Hong Kong and Taiwan businessmen will take. The main difference between this economic retrenchment and the one that occurred on the China mainland in 1988 is the great increase in foreign investment in mainland China; Hong Kong and Taiwan ranking first and second in this investment. Consequently, the effect of the shock from mainland economic retrenchment should not be underestimated. In particular, what will be the effect on Hong Kong, which is increasingly dependent on the mainland economy? How will Hong Kong businessmen react? Naturally, these questions merit examination.

The general view is that this round of financial retrenchment and macroeconomic regulation and control will have a positive effect on the long-term development of the mainland economy, but that the greatest impact in the short-term will be on excessive speculation in real estate.

One Hong Kong corporation that gives investment advice said that it estimated that 30 percent of the real estate in south central China will "not be profitable in the long run" [lan wei]. The general manager of China Electronics Te Hsin [1795 0207] Company, Ts'ai Wei-ch'ien [5591 4850 6197], noted that it will be impossible to wind down 60 percent of projects along the Guangdong coast. In addition, reportedly, the large scale use of bank loans for speculative investments in Hainan real estate during 1993 is especially serious.

However, virtually none of those interviewed could provide a crisp assessment of how the overall economic situation will evolve once the present real estate crisis is over. The more optimistic ones felt this was the best opportunity for the "survival of the fittest," and that overseas investors having the resources and the money should take the opportunity to make some easy pickings. The more conservative ones have delayed investment development plans. For the time being, they will watch from the sidelines. Using a Credit Lyonnais research report as a basis, in early August, the Asia Wall Street Journal interviewed the 10 Hong Kong securities listing corporations having the largest investment in the mainland. Interestingly, when the fifth ranking Hsiung Ku Group's executive director, Ma Shih-hsiang [7456 2514 0078], saw the group's ranking in the newspaper, he said, "No, no, no, no," and commented that the newspaper overestimated the amount of the Hsiung Ku Group's investment.

In addition, the author of the article also said candidly that "attempts to contact the New World Group failed," and that the New World Group ranked second. The writer also said tellingly that investment in the mainland is no longer a popular topic that Hong Kong businessmen want to advertise. In other words, everyone is downplaying it very greatly.

Nevertheless, this journal has learned from other contacts that the amount that Hong Kong financial groups have invested in the mainland is not all that much. Thus, the shock that they will receive is limited. Naturally, at the present stage, most of them will adopt a low-key, wait-and-see attitude.

For example, the reported 10 billion [currency not given] capital construction investment by the Kowloon Wharf and Godown Group has been described as "exaggerated." Furthermore, although Cheung Kong Holdings has signed numerous mainland contracts, most are in the research and development stage; the amount actually invested has been limited. The founder of Tso-tan-nu [phonetic] Enterprises, Li Chih-ying [7812 2535 5391], believes that each of the provinces and cities on the mainland merely want to use the reputations of these financial groups to attract more investors; therefore, the impact on them is naturally not great.

#### **Long-Term Outlook Good; Money Read To Make Easy Pickings**

The head of an established Hong Kong real estate firm said that the Hong Kong investor who has a substantial investment in the mainland at the present time is Kuo Ho-nien [6753 7729 1628] of the New World Group and Shangrila Hotels.

It has been estimated that the New World Group has invested several billion Hong Kong dollars, so the effect on it may be fairly great. Possibly it was for this reason that the Asian Wall Street Journal's "effort to contact" this group failed.

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